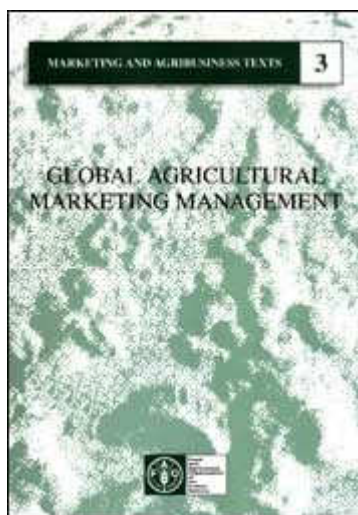




Global Agricultural Marketing Management. (Marketing and Agribusiness texts - 3)

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S. Carter

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Preface

This book, *Global agricultural marketing management*, was prepared by the project Network and Centre for Agricultural Marketing Training in Eastern and Southern Africa. The project, funded by the Government of Japan and executed by the Food and Agriculture Organization of the United Nations, was based in Zimbabwe and ran for five years from May 1990. Its overall objective was to strengthen agricultural marketing training in eastern and southern Africa.

Approach and objectives

This book, is one of a series of texts prepared by the Network and Centre. It is written in a style intended to provide both the theory concepts and practice of global agricultural marketing management, with emphasis on the latter. In particular, it provides:

- the theoretical framework for global agricultural marketing management including definitions of marketing, enumerated analysis, marketing planning, the marketing mix and marketing evaluation and control.
- numerous case studies and examples drawn from Eastern and Southern Africa (reflecting the project bias), but not exclusively so.
- details of the many practical procedures and transactions included in global marketing.

The text is primarily designed as a teaching aid for marketing or agribusiness lecturers or trainers and is suitable for post graduate students studying agricultural marketing, agricultural economics, agribusiness, management or business studies; undergraduates studying for the same and students studying for professional qualifications like the Chartered Institute of Marketing diploma. It can also be used as material for short courses, as a refresher or basic text for post graduates, for in service training of managers and as a self learning aid.

The learning process

The learning process is assisted within the text through the provision of a number of learning aids. These are:

- Chapter objectives; Each chapter has specific objectives which prepare the learner for the chapter material and outline the learning outcomes.
- Figures and tables; Each chapter is illustrated with relevant figures and tables which illustrate, encapsulate or summarize the text.
- Examples; Each chapter contains examples which serve to illustrate the text and reinforce understanding of the principles.

- Exercises; Each chapter contains both worked and unworked exercises intended to ensure the learner's understanding of both the concepts and the use of practical techniques involved in global marketing.
- Key terms; Key terms are included at the end of each chapter and are intended to act as an aide-memoire.
- Index; A subject index is included at the end of the text to assist with quick reference.

Additional texts

The text is complemented by an additional set of learning and teaching aids as follows:

- Global Agricultural Marketing Management - Tutors Manual
This text contains all the exercises referred to in the text together with their solutions.
- Transparency Masters
The Transparency Masters contain a series of overhead transparency masters which include all the subject matter, examples, and their solution in summarised or full format. These can be photocopied and used as additional student notes.

Authors and acknowledgements

Steve Carter was FAO project director, previous to which he taught marketing at universities in the United Kingdom, India and Africa and consulted in many developing countries around the world.

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S. Carter





Chapter 1: Introduction To Global Marketing

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A look at the appropriate figures, (for example The World Development Report by the World Bank) will indicate that the world is becoming increasingly interdependent for its economic progress. In 1954, in the USA, for instance, imports were only one percent of GNP, but in 1984 they had risen to 10%. In food crops, while developing countries trade in coffee, cocoa, cotton and sugar actually declined in value during the 1980s, developing countries as a group experienced annual export growth rates of 4 to 11% in categories like processed fruit and vegetables, fresh processed fish products, feed stuffs and oil seeds. High value food product exports in 1990 totalled approximately \$144 billion, the same as crude petroleum, representing 5% of world commodity trade. In 1990, more than twenty Less Developed Countries (LDCs) had exports of high value foods exceeding \$500 million including countries like Brazil, China, Thailand, India and Senegal.

Terms such as "global village" and "world economy" have become very fashionable. Marketing goods and services on a global scale can happen in an "engineered" way, but often it is as a result of good and meticulous planning. For example, in order to stave off potential famine, the United Nation's World Food Programme (WFP) may purchase maize from Zimbabwe and distribute it in Tanzania, Malawi and Kenya. This "engineered" international marketing transaction may benefit Zimbabwe, without Zimbabwe having to prospect markets. Most international transactions are not like this. Most are clearly planned, involving meticulous attention to global social and economic differences and/or similarities in product, price, promotion, distribution and socio/economic/legal requirements.

Chapter Objectives

The objectives of this chapter are:

- To provide an understanding of the factors which have led to the growth of internationalism and globalisation

- To produce a description of the major concepts and themes on which the subject of global marketing is based
- To describe what is involved in planning for global marketing.

Structure Of The Chapter

The chapter starts by looking at the evolution of a firm's orientation from primarily a domestic producer to a global player. It then goes on to describe the major factors that have led to global marketing, including both economic and social. Finally the chapter examines the planning mechanism necessary to take account of important differences and/or similarities when marketing goods and services internationally.

The evolution of global marketing

Whether an organisation markets its goods and services domestically or internationally, the definition of marketing still applies. However, the scope of marketing is broadened when the organisation decides to sell across international boundaries, this being primarily due to the numerous other dimensions which the organisation has to account for. For example, the organisation's language of business may be "English", but it may have to do business in the "French language". This not only requires a translation facility, but the French cultural conditions have to be accounted for as well. Doing business "the French way" may be different from doing it "the English way". This is particularly true when doing business with the Japanese.

Let us, firstly define "Marketing" and then see how, by doing marketing across multinational boundaries, differences, where existing, have to be accounted for.

S. Carter defines marketing as:

"The process of building lasting relationships through planning, executing and controlling the conception, pricing, promotion and distribution of ideas, goods and services to create mutual exchange that satisfy individual and organisational needs and objectives".

The long held tenants of marketing are "customer value", "competitive advantage" and "focus". This means that organisations have to study the market, develop products or services that satisfy customer needs and wants, develop the "correct" marketing mix and satisfy its own objectives as well as giving customer satisfaction on a continuing basis. However, it became clear in the 1980s that this definition of marketing was too narrow. Preoccupation with the tactical workings of the marketing mix led to neglect of long term product development, so "Strategic Marketing" was born. The focus was shifted from knowing everything about the customer, to knowing the customer in a context which includes the competition, government policy and regulations, and the broader economic, social and political macro forces that shape the evolution of markets. In global marketing terms this means forging alliances (relationships) or developing networks, working closely with home country government officials and industry competitors to gain access to a target market. Also the marketing objective has changed from one of satisfying organisational objectives to one of "stakeholder" benefits - including employees, society, government and so on. Profit is still essential but not an end in itself.

Strategic marketing according to Wensley (1982) has been defined as:

"Initiating, negotiating and managing acceptable exchange relationships with key interest groups or constituencies, in the pursuit of sustainable competitive advantage within specific markets, on the basis of long run consumer, channel and other stakeholder franchise".

Whether one takes the definition of "marketing" or "strategic marketing", "marketing" must still be regarded as both a philosophy and a set of functional activities. As a philosophy embracing customer value (or satisfaction), planning and organising activities to meet individual and organisational objectives, marketing must be internalised by all members of an organisation, because without satisfied customers the organisation will eventually die. As a set of operational activities, marketing embraces selling, advertising, transporting, market research and product development activities to name but a few. It is important to note that marketing is not just a philosophy or one or some of the operational activities. It is both. In planning for marketing, the organisation has to basically decide what it is going to sell, to which target market and with what marketing mix (product, place, promotion, price and people). Although these tenets of marketing planning must apply anywhere, when marketing across national boundaries, the difference between domestic and international marketing lies almost entirely in the differences in national environments within which the global programme is conducted and the differences in the organisation and programmes of a firm operating simultaneously in different national markets.

It is recognised that in the "postmodern" era of marketing, even the assumptions and long standing tenets of marketing like the concepts of "consumer needs", "consumer sovereignty", "target markets" and "product/market processes" are being challenged. The emphasis is towards the emergence of the "customising consumer", that is, the customer who takes elements of the market offerings and moulds a customised consumption experience out of these. Even further, post modernism, posts that the consumer who is the consumed, the ultimate marketable image, is also becoming liberated from the sole role of a consumer and is becoming a producer. This reveals itself in the desire for the consumer to become part of the marketing process and to experience immersion into "thematic settings" rather than merely to encounter products. So in consuming food products for example, it becomes not just a case of satisfying hunger needs, but also can be rendered as an image - producing act. In the post modern market place the product does not project images, it fills images. This is true in some foodstuffs. The consumption of "designer water" or "slimming foods" is a statement of a self image, not just a product consuming act.

Acceptance of postmodern marketing affects discussions of products, pricing, advertising, distribution and planning. However, given the fact that this textbook is primarily written with developing economies in mind, where the environmental conditions, consumer sophistication and systems are not such that allow a quantum leap to postmodernism, it is intended to mention the concept in passing. Further discussion on the topic is available in the accompanying list of readings.

When organisations develop into global marketing organisations, they usually evolve into this from a relatively small export base. Some firms never get any further than the exporting stage. Marketing overseas can, therefore, be anywhere on a continuum of "foreign" to "global". It is well to note at this stage that the words "international", "multinational" or "global" are now rather outdated descriptions. In fact "global" has replaced the other terms to all intents and purposes. "Foreign" marketing means marketing in an environment different from the home base, it's basic form being "exporting". Over time, this may evolve into an operating market rather than a foreign market. One such example is the Preferential Trade Area (PTA) in Eastern and Southern Africa where involved countries can trade inter-regionally under certain common modalities. Another example is the Cold Storage Company of Zimbabwe.

Case 1.1 Cold Storage Company Of Zimbabwe

The Cold Storage Company (CSC) of Zimbabwe, evolved in 1995, out of the Cold Storage Commission. The latter, for many years, had been the parastatal (or nationalised company)

with the mandate to market meat in Zimbabwe. However, the CSC lost its monopoly under the Zimbabwean Economic Reform Programme of 1990-95, which saw the introduction of many private abattoirs. During its monopoly years the CSC had built five modern abattoirs, a number of which were up to European Union rating. In addition, and as a driving force to the building of EU rated abattoirs, the CSC had obtained a 9000 tonnes beef quota in the EU. Most of the meat went out under the auspices of the Botswana Meat Commission. For many years, the quota had been a source of volume and revenue, a source which is still continuing. In this way, the CSC's exporting of beef to the EU is such that the EU can no longer be considered as "Foreign" but an "Operating" market.

0 In "global marketing" the modus operandi is very different. Organisations begin to develop and run operations in the targeted country or countries outside of the domestic one. In practice, organisations evolve and Table 1.1 outlines a typology of terms which describes the characteristics of companies at different stages in the process of evolving from domestic to global enterprises.

The four stages are as follows:

1. *Stage one*: domestic in focus, with all activity concentrated in the home market. Whilst many organisations can survive like this, for example raw milk marketing, solely domestically oriented organisations are probably doomed to long term failure.
2. *Stage two*: home focus, but with exports (ethnocentric). Probably believes only in home values, but creates an export division. Usually ripe for the taking by stage four organisations.
3. *Stage three*: stage two organisations which realise that they must adapt their marketing mixes to overseas operations. The focus switches to multinational (polycentric) and adaption becomes paramount.
4. *Stage four*: global organisations which create value by extending products and programmes and focus on serving emerging global markets (geocentric). This involves recognising that markets around the world consist of similarities and differences and that it is possible to develop a global strategy based on similarities to obtain scale economies, but also recognises and responds to cost effective differences. Its strategies are a combination of extension, adaptation and creation. It is unpredictable in behaviour and always alert to opportunities.

There is no time limit on the evolution process. In some industries, like horticulture, the process can be very quick.

Table 1.1 Stages of domestic to global evolution

Management emphasis	Stage one Domestic	Stage two International	Stage three Multinational	Stage four Global
Focus	Domestic	Ethnocentric	Polycentric	Geocentric
Marketing strategy	Domestic	Extension	Adaption	Extension
Structure	Domestic	International	Worldwide area	Adaption creation matrix/mixed
Management style	Domestic	Centralised top down	Decentralised bottom up	Integrated
Manufacturing stance	Mainly domestic	Mainly domestic	Host country	Lowest cost worldwide
Investment policy	Domestic	Domestic used worldwide	Mainly in each host country	Cross subsidization

Performance evaluation	Domestic market share	Against home country market share	Each host country market share	Worldwide
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Factors which have led to internationalisation

There have been many underlying forces, concepts and theories which have emerged as giving political explanation to the development of international trade. Remarkably, despite the trend to world interdependency, some countries have been less involved than others. The USA, for example, has a remarkably poor export record. About 2000 US companies only account for more than 70% of US manufacturer's exports. This has been mainly due to its huge statewide domestic market, which is almost tantamount to "international trade", for example, Californian fruit being sold three thousand kilometres away in New Jersey. Japan has risen fast to dominate the export rankings, with countries of Africa struggling to make a significant mark, mainly because of their emphasis on exporting primary products. This section will briefly examine the forces which have been instrumental in the development of world trade.

Theoretical approaches

These include the theory of comparative advantage described in the book *Wealth of Nations* (Adam Smith) and David Ricardo), the product trade cycle (Raymond Vernon) and *The Business Orientation* (Howard Perlmutter).

The theory of comparative advantage:

The theory can be relatively complex and difficult to understand but stated simply this theory is a demonstration (under assumptions) that a country can gain from trade even if it has an absolute disadvantage in the production of all goods, or it can gain from trade even if it has an absolute advantage in the production of all goods. Even though a country has an absolute production advantage it may be better to concentrate on its comparative advantage. To calculate the comparative advantage one has to compare the production ratios, and make the assumption that the one country totally specialises in one product. To maximise the wellbeing of both individuals and countries, countries are better off specialising in their area of competitive advantage and then trading and exchanging with others in the market place. Today there are a variety of spreadsheets that one can use to calculate comparative advantage, one such is that of the Food and Agriculture Organization (FAO). Calculation of comparative advantage is as follows:

Example

It may be assumed that Holland is more efficient in the production of flowers than Kenya. Yet Kenya succeeds in exporting thousands of tonnes of flowers to Europe every year. Kenya flower growers Sulmac and Oserian have achieved legendary reputations, in the supply of fresh cut flowers to Europe, How?

Take the simple two country - two product model of comparative advantage. Europe grows apples and South Africa oranges, these are two products, both undifferentiated and produced with production units which are a mixture of land, labour and capital. To use the same production units South Africa can produce 100 apples and no oranges, and Europe can produce 80 apples and no oranges. At the other extreme South Africa can produce no apples and 50 oranges and Europe no apples and 30 oranges. Now if the two countries specialise and trade the position is as follows:

Product	South Africa			Europe		
	Production	Imports	Consumers	Production	Imports	Consumers
Apples (000's)	0	30	30	80	30	50
Oranges (000's)	50	14	36	30	14	44

The trading price is $30:14 = 2.14$ apples = 1 orange
 $14:30 = 4.67$ oranges = 1 apple

So in apples, South Africa has an advantage of 1.25 ($100/80$) but in oranges 1.67 ($50/30$). So South Africa should concentrate on the production of oranges as its comparative advantage is greatest here. Unfortunately the theory assumes that production costs remain relatively static. However, it is a well known fact that increased volumes result, usually, in lower costs. Indeed, the Boston Consulting Group observed this phenomenon, in the so called "experience curve" effect concept. And it is not only "production" related but "all experience" related; including marketing. The Boston Consulting group observed that as an organisation gains experience in production and marketing the greater the reduction in costs. The theory of comparative advantage also ignores product and programme differentiation. Consumers do not buy products based only on the lowest costs of production. Image, quality, reliability of delivery and other tangible and non tangible factors come into play. Kenyans may well be prepared to pay extra for imported French or South African wines, as the locally produced paw paw wine may be much inferior.

The product trade cycle:

The model describes the relationship between the product life cycle, trade and investment (see figure 1.1) and is attributable to Venon¹ (1966)

The international product trade cycle model suggests that many products go through a cycle during which high-income, mass consumption countries which are initial exporters, lose their export markets and finally become importers of the product. At the same time other countries, particularly less developed but not exclusively so, shift from being importers to exporters. These stages are reflected in figure 1.1.

Figure 1.1 International product trade cycle

From a high income country point of view phase 1 involves exporting, based on domestic product strength and surplus-to phase 2, when foreign production begins, to phase 3 when production in the foreign country becomes competitive, to phase 4 when import competition begins. The assumption behind this cycle is that new products are firstly launched in high income markets because a) there is most potential and b) the product can be tested best domestically near its source of production. Thus new products generally emanate from high income countries and, over time, orders begin to be solicited from lower income countries and so a thriving export market develops. High income country entrepreneurs quickly realise that the markets to which they are selling often have lower production costs and so production is initiated abroad for the new products, so starts the second stage.

In the second stage of the cycle, foreign and high income country production begins to supply the same export market. As foreign producers begin to expand and gain more experience, their competition displaces the high income export production source. At this point high income countries often decide to invest in foreign countries to protect their share. As foreign producers expand, their growing economies of scale make them a competitive source for third country markets where they compete with high income exporters. The final phase of the cycle occurs when the foreign producer achieves such a scale and experience that it starts exporting to the original high income producer at a production cost lower than its original high income

producer at a production cost lower than its original high income supplier. High income producers, once enjoying a monopoly in their own market, now face competition at home.

The cycle continues as the production capability in the product extends from other advanced countries to less developed countries at home, then in international trade, and finally, in other advanced countries home markets.

Case 1.2 UK Textiles

There are numerous examples of the International product trade cycle in action. Non more than the textiles industry, specially cotton. In the early and mid twentieth century the UK was a major producer of cotton textile materials, primarily based on its access to cheap raw materials from its Commonwealth countries and its relatively cheap labour. However, its former colonies like India, Pakistan and certain African countries, which were sources of cotton in themselves realised that they had the labour and materials on their doorstep conducive to domestic production. They began to do so. Such was their success in supplying their own huge markets that their production costs dropped dramatically with growing economies of scale.

Soon they were able to support cloth and finished good back to the UK, which by now had experienced growing production costs due to rising labour costs and failing market share. Now the UK has little cotton materials production and it served by many countries over the world, including its former colonies and Commonwealth countries.

Whilst the underlying assumption behind the International Product Trade Cycle is that the cycle begins with the export of new product ideas from high income countries to low income importers, then low income countries begin production of the product etc., things do not always turn out as the cycle suggests. Sometimes a high or even low income exporter may put a product into a high/low income country which is simply unable to respond. In this case, the Trade Cycle ceases to be the underpinning concept. This may be due to a number of factors like lack of access to capital to build the facilities to respond to the import, lack of skills or that the costs of local production cannot get down to the level of costs of the imported product. In this case, product substitution between the exporter and importer may also take place. A classic example of this phenomenon is the case of Zimbabwe Sunsplash fruit juice drinks.

Case 1.3 Sunsplash Zimbabwe

Sunsplash, based in Masvingo, Zimbabwe had, since 1984, processed a variety of fruit juices for the Zimbabwean market. When Zimbabwe embarked on its World Bank sponsored structural adjustment programme in 1990, Zimbabwe steadily moved from a command to a market economy, part of which allowed foreign importers.

In a short space of time, market share for Sunsplash fell from 1 million litres annually to a mere 400 000 litres. On this reduced volume, coupled with higher transport costs, the company simply could not compete and closed its doors in January 1995. However reduction in income and transport costs were not the only problems. Expenses like high interest rates were an inhibiting factor. The company needed to make the transition to aseptic packaging which would alleviate the need for chemical preservations and enhance unrefrigerated shelf life. The new packaging would have greatly enhanced the product and generated export potential. However, cashflow constraints within the holding company, (AFDIS), coupled with high interest rates made the \$5,8 million investment unviable.

Orientation of management:

Perlmutter¹ (1967) identified distinctive "orientations" of management of international organisations. His "EPRG" scheme identified four types of attitudes or orientations associated with successive stages in the evolution of international operations.

- Ethnocentrism - home country orientation - exporting surplus.

- Polycentrism - host country orientation - subsidiary operation.
- Regiocentrism - regional orientation - world market strategies.
- Geocentrism - world orientation - world market strategies.

The latter two are based on similarities and differences in markets, capitalising on similarities to obtain cost benefits, but recognising differences.

Market forces and development

Over the last few decades internationalism has grown because of a number of market factors which have been driving development forward, over and above those factors which have been attempting to restrain it. These include market and marketing related variables.

Many global opportunities have arisen because of the clustering of market opportunities worldwide. Organisations have found that similar basic segments exist worldwide and, therefore, can be met with a global orientation. Cotton, as an ingredient in shirtings, suitings, and curtain material can be globally marketed as natural and fashionable. One can see in the streets of New York, London, Kuala Lumpur or Harare, youth with the same style and brand of basketball shirts or American Football shorts. Coca Cola can be universally advertised as "Adds Life" or appeal to a basic instinct " You can't beat the Feeling" or "Come alive" as with the case of Pepsi. One can question "what feeling?", but that is not the point. The more culturally unbounded the product is, the more a global clustering can take place and the more a standardised approach can be made in the design of marketing programmes.

This standardised approach can be aided and abetted with technology. Technology has been one of the single most powerful driving forces to internationalism. Rarely is technology culturally bound. A new pesticide is available almost globally to any agricultural organisation as long as it has the means to buy it. Computers in agriculture and other applications are used universally with IBM and Macintosh becoming household names. The need to recoup large costs of research and development in new products may force organisations to look at global markets to recoup their investment. This is certainly true of many veterinary products. Global volumes allow continuing investment in R & D, thus helping firms to improve quality. Farm machinery, for example, requires volume to generate profits for the development of new products.

Communications and transport are shrinking the global market place. Value added manufacturers like Cadbury, Nestlè, Kelloggs, Beyer, Norsk Hydro, Massey Ferguson and ICI find themselves "under pressure" from the market place and distributors alike to position their brands globally. In many cases this may mean an adaption in advertising appeals or messages as well as packaging and instructions. Nestle will not be in a hurry to repeat its disastrous experience of the "Infant formula" saga, whereby it failed to realise that the ability to find, boiled water for its preparations, coupled with the literacy level to read the instructions properly, were not universal phenomenon.

Marketing globally also provides the marketer with five types of "leverage" or "advantages", those of experience, scale, resource utilisation and global strategy. A multi-product global giant like Nestle', with over £10 billion turnover annually, operates in so many markets, buys so much raw material from a variety of outgrowers of different sizes, that its international leverage is huge. If it consumes a third of the world's cocoa output annually, then it is in a position to dominate terms. This also has its dangers.

The greatest lift to producers of raw agricultural products has been the almost universal necessity to consume their produce. If one considers the whole range of materials from their raw to value added state there is hardly a market segment which

cannot be tapped globally. Take, for example, oranges. Not only are Brazilian, Israeli, South African and Spanish oranges in demand in their raw state worldwide, but their downstream developments are equally in demand. Orange juice, concentrates, segments and orange pigments are globally demanded. In addition the ancillary products and services required to make the orange industry work, find themselves equally in global demand. So insecticides, chemicals, machinery, transport services, financial institutions, warehousing, packaging and a whole range of other production and marketing services are in demand, many provided by global organisations like Beyer, British Airways and Barclays Bank. Of course, many raw materials are at the mercy of world prices, and so many developing countries find themselves at the mercy of supply and demand fluctuations. But this highlights one important global lesson - the need to study markets carefully. Tobacco producing countries of the world are finding this out. With a growing trend away from tobacco products in the west, new markets or increasing volumes into consuming markets have to be prospected and developed. Many agricultural commodities take time to mature. An orange grove will mature after five years. By that time another country may plant or have its trees mature. Unless these developments are picked up by global intelligence the plans for a big profit may be not realised as the extra volume supplied depresses prices. This happened in 1993/94 with the Malawian and Zimbabwean tobacco companies. The unexpected release of Chinese tobacco depressed the tobacco price well below expectations, leaving farms with stock and large interest carrying production loans.

A number of suppliers of agricultural produce can take advantage of "off season" in other countries, or the fact that they produce speciality products. This is the way by which many East African and South American producers established themselves in Europe and the USA respectively. In fact the case of Kenya vegetables to Europe is a classic, covering many of the factors which have just been discussed-improved technology, emerging global segments, shrinking communications gaps and the drive to diversify product ranges.

Case 1.5 Kenya Off Season Vegetables

Kenya's export of off season and speciality vegetables has been such that from 1957 to the early 1990s exports have grown to 26 000 tonnes per annum. Kenya took advantage of:

- a) increased health consciousness, increased affluence and foreign travel of West European consumers;
- b) improved technologies and distribution arrangements for fresh products in Western Europe;
- c) the emergence of large immigrant populations in several European countries;
- d) programmes of diversification by agricultural export countries and
- e) increased uplift facilities and cold store technologies between Europe and Kenya.

Exports started in 1957, via the Horticultural Cooperation Union, which pioneered the European "off season" trade by sending small consignments of green beans, sweet peppers, chillies and other commodities to a London based broker who sold them to up market hotels, restaurants and department stores. From these beginnings Kenya has continued to give high quality, high value commodities, servicing niche markets. Under the colonialists, production remained small, under the misguided reasoning that Kenya was too far from major markets. So irrigation for production was limited and the markets served were tourists and the settlers in Kenya itself.

The 1970s saw an increased trade as private investment in irrigation expanded, and air freight space increased, the introduction of wide bodied aircraft, and trading relationships grew with European distributors. Kenya, emerged as a major supplier of high quality sweet peppers, courgettes and French beans and a major supplier of "Asian" vegetables (okra, chillies etc.) to the UK growing immigrant population. Kenya was favoured because of its ability to supply all year round - a competitive edge over other suppliers. Whilst the UK

dominated, Kenya began supplying to other European markets.

Kenya's comparative advantage was based on its low labour costs, the country's location and its diverse agro-ecological conditions. These facilitated the development of a diversified product range, all year round supply and better qualities due to labour intensity at harvest time. Kenya's airfreight costs were kept low due to government intervention, but lower costs of production were not its strength.

This lay in its ability for continuance of supply, better quality and Kenyan knowledge of the European immigrant population. Kenya's rapidly growing tourist trade also accelerated its canning industry and was able to take surplus production.

In the 1980's Kenya had its ups and downs. Whilst losing out on temperature vegetables (courgettes etc) to lower cost Mediterranean countries, it increased its share in French beans and other speciality vegetables significantly getting direct entry into the supermarket chains and also Kenya broke into tropical fruits and cut flowers - a major success. With the development and organisation of many small "outgrowers", channelled into the export market and thus widening the export base, the industry now provides an important source of income and employment. It also has a highly developed information system, coordinated through the Kenya Horticultural Crops Development Authority.

Kenya is thus a classic case in its export vegetable industry of taking advantage of global market forces. However, it has to look to its laurels as Zimbabwe is rapidly beginning to develop as another source of flowers and vegetables, particularly the former.

Whilst the forces, market and otherwise, have been overwhelming in their push to globalisation, there remain a number of negatives. Many organisations have been put off or have not bothered going into global industry due to a variety of factors. Some have found the need to adapt the marketing mix, especially in many culture bound products, too daunting. Similarly brands with a strong local history may not easily transfer to other markets. National Breweries of Zimbabwe, for example, may not find their Chibuku brand of beer (brewed especially for the locals) an easy transboundary traveller. More often than not sheer management myopia may set in and management may fail to seize the export opportunity although products may be likely candidates. Similarly organisations may refuse to devolve activities to local subsidiaries.

Other negative forces may be created by Governments. Simply by creating barriers to entry, local enterprises may be protected from international competition as well as the local market. This is typical of many developing countries, anxious to get their fledgling industries off the ground.

The international economic system

Several factors have contributed to the growth of the international economy post World War II. The principal forces have been the development of economic blocs like the European Union (EU) and then the "economic pillars"- the World Bank (or International Bank for Reconstruction and Development to give its full name), the International Monetary Fund (IMF) and the evolution of the World Trade Organisation from the original General Agreement on Tariffs and Trade (GATT).

Until 1969 the world economy traded on a gold and foreign exchange base. This affected liquidity drastically. After 1969 liquidity was eased by the agreement that member nations to the IMF accept the Special Drawing Rights (SDR) in settling reserve transactions. Now an international reserve facility is available. Recently, the World Bank has taken a very active role in the reconstruction and development of developing country economies, a point which will be expanded on later.

Until the General Agreement on Tariffs and Trade (GATT) after World War II, the world trading system had been restricted by discriminating trade practices. GATT had the intention of producing a set of rules and principles to liberalise trade. The most favoured nation concept (MFN), whereby each country agrees to extend to all

countries the most favourable terms that it negotiates with any country, helped reduce barriers. The "round" of talks began with Kennedy in the 60s and Tokyo of the 70s. The latest round, Uruguay, was recently concluded in April 1994 and ratified by most countries in early 1995. Despite these trade agreements, non tariff barriers like exclusion deals, standards and administrative delays are more difficult to deal with. A similar system exists with the European Union, - the Lomé convention. Under this deal, African and Caribbean countries enjoy favoured status with EU member countries.

Relative global peace has engendered confidence in world trade. Encouraged by this and the availability of finance, global corporations have been able to expand into many markets. The break up of the former Soviet Union has opened up vast opportunities to investors, aided by the World Bank and the European Development Bank. This atmosphere of peace has also allowed the steady upward trend of domestic growth and again opened up market opportunities domestically to foreign firms. Peace in Mozambique, the "normalisation" of South Africa, and peace in Vietnam as examples have opened up the way for domestic growth and also, therefore, foreign investment. The liberation of economies under World Bank sponsored structural adjustment programmes have also given opportunities. This is very true of countries like Zambia and Zimbabwe, where in the latter, for example, over Z\$2.8 billion of foreign investment in the stock exchange and mining projects have occurred in the early 1990s.

Sometimes, market opportunities open up through "Acts of God". The great drought of 1992 in Southern Africa, necessitated a large influx of foreign produce, especially yellow maize from the USA and South America.

Not only did this give a market for maize only, but opened up opportunities for transport businesses and services to serve the drought stricken areas. Speedy communications like air transportation and electronic data transmission and technology have "shrunk" the world. Costs and time have reduced enormously and with the advent of television, people can see what is happening elsewhere and this can cause desire levels to rise dramatically. Only recently has television been introduced into Tanzania, for example, and this has brought the world and its markets, closer to the average Tanzanian.

No doubt a great impetus to global trade was brought about by the development of economic blocs, and, conversely, by the collapse of others. Blocs like the European Union (EU), ASEAN, the North American Free Trade Agreement (NAFTA) with the USA, Canada and Mexico has created market opportunities and challenges. New countries are trying to join these blocs all the time, because of the economic, social and other advantages they bring. Similarly, the collapse of the old communist blocs have given rise to opportunities for organisations as they strive to get into the new market based economies rising from the ruins. This is certainly the case with the former Soviet bloc.

In the late 1980s and early 90s, the United States, along with Japan, have been playing an increasingly influential role in world affairs, especially with the collapse of the former USSR. Whilst on the one hand this is good, as the USA is committed to world welfare development, it can be at a price. The Gulf War coalition of the 90s, primarily put together by the USA as the leading player, was an example of the price.

Impetus to global marketing involvement

Individuals or organisations may get involved in International Marketing in a rather unplanned way which gives the impetus to more formal and larger operations. This may happen in a number of ways:

Foreign customers

Unsolicited enquiries through word of mouth, visits, exhibitions, and experience through others may result in orders. This is often typical of small scale organisations.

Importers

Importers may be looking for products unavailable in domestic markets, for example, mangoes in the UK, or products which can be imported on more favourable terms. An example of these is flowers from Kenya to Holland.

Intermediaries

These may be of four types - domestic based export merchants, domestic based export agents, export management companies or cooperative organisations. These will be expanded on later in this text. Sometimes an intermediary may provide export services in an attempt to reduce their own costs on the export of their own produce by acting as a representative for other organisations. This is called "piggybacking".

Other sources

These may include banks, export organisations like ZIMTRADE, parastatals like the Kenyan Horticultural Crop Development Authority or even individual executives.

Attitudes as precursors to global involvement

Cavusgil³ (1984) developed a three stage model of export involvement, based on the fact that the opportunity to export may arise long before exporting behaviours became manifest. See figure 1.2.

Figure 1.2 Cavusgil's three stage model of export involvement

According to Cavusgil attitudes are determined by the operating style of the organisation and cultural norms which prevail in the domestic market. An organisation's style may be defensive or prospective. The latter type of organisation may systematically, or in an ad hoc manner, search out international opportunities.

Culture plays a vital part in the internationalisation process. Hakansson et al⁴. (1982) demonstrated that German and Swedish firms internationalise much earlier in their corporate history than do French or British companies. African culture is not littered with international marketers of note. This may be due to colonisation late into the twentieth century.

Behaviour as a global marketing impetus

We saw earlier in the internationalisation process that organisations may evolve from exporting surplus or serving ad hoc enquiries to a more committed global strategy. This gradual change may involve moving from geographically adjacent markets to another, say, for example from the Southern African Development Conference (SADC) to Europe. However, not all globalisation takes place like this. In the case of fresh cut flowers, these may go to major, developed country consumer centres, for example from Harare to London or Amsterdam and Frankfurt. Lusaka or Nairobi may never see Zimbabwe flowers. In analysing behaviour one has not to generalise. What is certain, is that in all stages, the balance of opportunity and risk is considered.

The context of internationalisation

It is essential to see in what context individual organisations view internationalisation. The existing situation of the firm will affect its interest in and ability to internationalise. Such may be the low domestic quality and organisation that a firm could never export. It may not have the resources or the will.

Internationalisation infrastructure

Johanson and Mattison⁵ (1984) have explored the notion of differences in tasks facing organisations which internationalise. In low and high infrastructure situations. "Early starters" are likely to experiment or depend on contacts with experienced organisations which know the process. "Late starters" may use existing contacts as a "bridge" to new opportunities. They may also be pressurised by customers, supplies or competitors to get into joint venturing. Joint venturing, with its added infrastructure, may lead to rapid progress. If the organisation faces intense competition then it may be forced to up the pace and scale of foreign investment. Rising protectionism in recent years has given impetus to late starters to establish production facilities in target markets. Infrastructure for foreign operations may also change (firms also reduce their investment as well as invest). When this happens the perceived risk changes also.

This discussion on international infrastructure concludes the factors which have led to internationalisation. It is a complex focus of internal and external factors and looking carefully at risk versus opportunities.

Planning to meet the opportunities and challenges of global marketing

In order to take advantage of global opportunities, as well as meet the challenges presented by so doing a number of concepts can be particularly useful. Every organisation needs an understanding of what is involved in "strategy", or else the haphazardness involved in chance exporting can be accepted as the norm with all inherent dangers involved. Also potential exporters need to know what is going on in the global "environment". Just as in domestic marketing "Government" "competition", "social" and other factors need to be accounted for, such is the case in international marketing. If one can place products or services at a point on an environmental sensitivity/insensitivity continuum, one can see more clearly the need to account for differences in the marketing mix. By comparing the similarities and differences between domestic and international marketing needs and planning requirements, then the organisation is in a better position to isolate the key factors critical to success. This section examines all these concepts in brief.

Strategy

Whatever business we are in, haphazard organisation often leads to haphazard results. In planning for international marketing organisations need a clear picture of the steps involved. "Strategy" gives such a picture. Strategy is the response of the organisation to the realities of shareholders and the business environment. The phases in the strategy formulation process are given on figure 1.3.

Figure 1.3 Strategy formulation

The global environment

Of all the steps in formulating strategy, no one step is as important as the ability to assess the "environmental" factors in international marketing. Taking account of cultural, economic and political differences is a must when dealing with different markets. More will be said on these factors in later chapters. Environmental analysis allows the organisation to cluster markets according to similarities and differences, based on the environmental "uncontrollable" factors. The international "uncontrollables" are in addition to the organisation's domestic "uncontrollables" so need to be treated with extra care. Figure 1.4 shows the major environmental factors to be considered. It must be noted that according to the "relationship" marketing school of thought, the so called "incontrollables" can be made more "controllable" by building relationships with the influences of these factors. For example, if an exporter

of horticultural produce wishes to be able to anticipate changes in the political environment, it may build a relationship with certain politicians who may have intimate knowledge of the political system. This should not, of course, be misconstrued as "insider information". However, having made this caveat, this text will treat the "incontrollables" in the conventional way.

Figure 1.4 Foreign "uncontrollables"-in the global macroenvironment

International environment

An analysis of the environmental uncontrollables allows the potential marketers to place products on a continuum of environmental sensitivity. At the one end are environmentally insensitive products and at the other end, those more sensitive to economic, sociocultural, physical and other factors. The greater the sensitivity, the greater the need for the organisation to learn the way the product interacts with the environment. An example is given below (figure 1.5).

Figure 1.5 Environmental sensitivity

Framework for international analysis

In order to put together the task of finding the differences and similarities in environmental and market analysis, a framework needs to be devised. Where unifying influences are found then the marketer is able to develop more standardised plans. When there are a large number of differences, then plans have to be designed adapted to circumstances. Figure 1.6 gives a framework for the process of identifying similarities and differences.

Figure 1.6 A Conceptual framework for multinational marketing: National market versus other nations

Once having identified the unifying and differentiating influences and answered many questions about where one could or could not standardise the marketing planning process then a conceptual framework for multinational marketing planning can be developed. One such conceptual framework is given in figure 1.7.

Figure 1.7 A conceptual framework for multinational marketing in constraint economies

Key questions for analysis, planning and control of marketing in constraint economies.

a) Principle constraint analysis

i) Government's attitude to employment, foreign intervention, foreign exchange, indebtedness and policies

ii) Government's policy of economic development, foreign exchange, barter deals, equity arrangements, remittance of funds, state intervention, private sector development and import substitution?

iii) Government's social objectives including indegenisation, subsidies, population and socialisation?

iv) Laws, tariffs, duties, trade regulations, balance of payments, licensing and labour laws?

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Leading to an economic analysis

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Gathering of *appropriate* data on:

- b) Appropriate environmental variable data
- i) Market characteristics-physical, cultural, size, growth rate, stage of development?
- ii) Market institutions - distribution, media, research, services?
- iii) Industry conditions- size, practices, development stage, appropriate technology?
- iv) Resources- manpower and money?

Planning

- c) Target country experts or generalist staff to plan operations?
- d) What are the *authorised* target markets and the product appropriateness?
- e) Market size?
- f) What is the stage of development and strenght of competition both state and private?
- g) What is the appropriate product/market technology?
- h) What is the necessary adaptaton of the marketing mix?
- i) How do the goverment and company objectives coincide?
- j) What is the trading risk?
- k) What goverment/organisation interface is required? How are licencies agreed and obtained? Who are the principle characters?

Structure

- l) How does the company have to be structured to meet the government, economic and social objectives as well as company objectives

Plan implementation

- m) Given the goverment's policies, attitudes and economic and social objectives how is an effective marketing plan designed, resoused and implemented? what degree of adaptation and cooperation is required at all levels? (Government marketing institutions and function)? Who will be responsible for each level"?

Controlling the market program

- n) Who is responsible and how is the plan performance measured and monitored?
- o) What controls, other than profit are required? Are employment and other such objectives necessary?
- p) Has the company the ability and authority to alter the parameters to bring actual results into line with desired?
- q) What are the principal control parameters? Can they be easily adjusted at all?

This framework is particularly relevant to developing economies where government constraints and controls tend to be more intensive than developed economies.

Product life/market life cycle

Just as in domestic marketing the concept of the Product Life Cycle has often been cited as a useful (but often maligned!) planning concept, so it can be useful in international marketing. Figure 1.8 gives an outline of the Market Life Cycle across international boundaries.

Figure 1.8 The product/market life cycle

The traditional four stage life cycle - introduction, growth, maturity, decline - is a well documented phenomenon. Attempts are made in the maturity stage to extend the cycle. The market life cycle is very similar and what global marketers have to be wary of is that not all markets are at the same stage globally. It may be appropriate to have tractor mounted ditchers and diggers in Africa or the UK where labour is not too plentiful, but in India, they may be the last thing required where labour is plentiful and very cheap. So the appropriate marketing strategy will be different for each market.

It would be very easy to discuss the global marketing decision as a case of deciding whether to export or standardise or adapt your product/market offering. This is far from the case. Even the smallest nuance of change in the global environment can ruin a campaign or plan. Whilst the above discussion has tended to be theoretical in nature, most of it, if not all of it, is essential in practice. In food marketing systems many transactions and discussions take place across international boundaries. This involves a close look at all the necessary environmental factors. If one considers food marketing as the physical and economic bridge linking raw materials production and consumer purchases then a whole series of interdependent decisions, institutions, resource flows and physical and business activities take place. Food marketing stimulates and supports raw material production, balances commodity supply and demand and stimulates end demand and enhances consumer welfare. This process often transcends several different industries and markets, many of them crossing international boundaries. The product may change form, be graded, packed, transported and necessitate information flows, financial resources, invoice and retailing or wholesaling functions. In addition, quality standards designed for producers and transporters may apply as may product improvements. In other words, the bridge may involve a whole set of utilities afforded to the end user (time, place and form), and add value at each stage of the transaction. This system involves numerous independent and interdependent players and activities. To shift a perishable like strawberries 7000km from Harare, Zimbabwe to the UK requires an extraordinary complex series of activities, involving perfect timing. The detail involved in this intricate transaction will be explained in later chapters.

With commodities, physical, Government and economic environmental factors playing a major role in international marketing. So does price and quality differentiation. In later years the enormous success of the Brazilian frozen concentrated orange juice industry has been attributable not only to poor climatic conditions prevailing in its competitive countries, but the fact that its investment in large production economies of scale, bulk transport and storage technologies considerably reduced international transport costs and facilitated improved distribution of the juice to, and within, importing countries. From a cottage industry in 1970, it grew to account for 80% of world trade by the early 1990's. Its success, therefore, has been based on price and added value quality differentiation.

International marketing is, therefore, quite a complex operation, involving both an understanding of the theoretical and practical aspects involved. Prescriptions are totally inappropriate.

This concludes the discussion on the reasoning why internationalism has grown and the next chapters' took more closely at the environmental factors which have to be taken into account when considering to market internationally.

Chapter Summary

The development of global marketing has been brought about by a number of variables both exogenous and endogenous. The evolution of global marketing has been in a series of four stages from exporting to truly global operations. These stages have been termed "domestic" in focus to "ethnocentric", "polycentric" and "geocentric". When planning to do global marketing, a number of "environmental"

factors have to be considered but generally one is looking for "unifying" or "differentiating" influences which will dictate a "standard or "adapted" planning approach. Finally, a number of concepts and techniques, including the International Product Life Cycle, can give insight and a guide to global planning.

Key Terms

Absolute advantage	Global environment	Marketing
Comparative advantage	Global evolution	Polycentrism
Ethnocentrism	Global marketing	Regiocentrism
Geocentrism	International product life cycle	

Review Questions

From your knowledge of the material in this chapter, give brief answers to the following questions below.

1. What are the principal differences between marketing domestically and internationally or globally?
2. What factors have led to the growth of "Internationalism" since World War II? Discuss which you think are the most important and why.
3. Which concepts and techniques are available to aid marketers isolate differences and similarities in domestic and international marketing in order for them to plan appropriate marketing strategies?

Review Question Answers

1. Essentially there is no difference between the two. Both require the identification of product/market objectives, an analysis of the internal and external environment and the organising, planning, implementation and control of an effective marketing strategy. The differences lie in the degree of market similarities and differences, and the extent to which the product to be marketed is environmentally sensitive or insensitive.

2. Factors include:

- Theoretic - comparative advantage, the Product Trade Cycle and Perlmutter's business orientation.
- Market forces - market clusters, technology, cost/volume considerations, shrinking of transport and communication gaps, international leverage.
- The International System - development of economic blocs, growth in domestic economies, the International Monetary Framework, global peace, communication and transport technology, global corporation growth, GATT.
- Others - impetus through global experience, attitudes (Cavusgil), behaviour, context and the international infrastructure.

3. Concepts and techniques available include:

- Strategy formulation
- Global environmental scanning
- Framework for isolating similarities and differences
- Conceptual frameworks

- Product/market life cycles

Students should be encouraged to give examples of the concepts, techniques and factors where appropriate.

Exercise 1.1 Zambezi nuts

Zambezi nuts was a small agricultural cooperative, recently developed in the Zambezi Valley in Zimbabwe. In previous years much time had been spent selecting and clearing a site and putting in cashew nut trees and a service road. The trees had now reached maturity. Although the domestic market was attractive, the cost of production and the quality of the nuts meant that far higher returns could be gained by selling the nuts on the international market.

The cooperative provided employment for about twenty small scale growers with a hectare each. Irrigation was in place. The coop itself had collection, grading and bulk packing facilities but no packaging facilities. It employed ten workers, a supervisor and general manager. It had two one tonne trucks which collected from farms and distributed from the coop. The company had no experience at all in selling its produce overseas.

Task

What should Zambezi nuts consider before deciding on an exporting operation?

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Chapter 2: The Economic Environment

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Much was said in the first chapter about the necessity to take into account the global "environmental" factors. These factors are those so called "uncontrollables", unlike the "controllable" factors of price, promotion, place and product. They include market tastes, economic, socio cultural, legal, technological, competitive and political factors to name but a few. Failure to account for these factors can lead to dire consequences. As can be seen later, the failure by Tanzania to take account of the market changes and demand shift to polypolylenes from sisal, led to a demise in that country's sisal industry.

Chapter Objectives

The objectives of this chapter are:

- To describe and demonstrate the importance of the "economic" environment factor in planning and carrying out global marketing
- To show the importance of the "economic" factor in global marketing
- To describe and give an understanding of the major world regional economic blocs with particular emphasis on developing countries

Structure Of The Chapter

The chapter starts off with a review of the global economy, the composition of world trade and the World Trade Institutions. Regionalism is a major phenomenon of the late 80s and early 90s and so the chapter describes in detail a number of major regional economic blocs. Very important in any discussion on economic factors is the size of market, and more specifically, the market ability to purchase, which depends on levels of income. The chapter finishes by looking at the nature of economic activity including the stages of market development, urbanisation and infrastructure as important precursors to the degree of economic activity.

Note that a comprehensive case study covering the "environmental" aspects of global marketing occurs at the end of chapter four.

Overview

In the past fifty years the global economy has changed rapidly. Particularly marked has been the development of world economic integration and standardised products. Coca Cola, Nissan and Marlboro cigarettes are examples of products which serve nearly every market. Generally there have been four major changes:

- capital movements rather than trade have become the driving force of the global economy
- production has become "uncoupled" from employment
- primary products have become "uncoupled" from the industrial economy and,
- the world economy is in control - individual nations are not, despite the large world economic share of the USA and Japan.

Taking each of these changes in turn, world trade is about some US\$ 3 trillion, however, capital movements are much higher. The London Eurodollar market is worth about US\$ 75 trillion per annum and foreign exchange transactions are US\$ 35 trillion per annum.

Another change is the decoupling of employment from production. Employment is in decline whilst manufacturing output is growing or remaining static at 20-25% of GNP. Sectors such as agriculture, are achieving higher productivity through mechanisation but this is at the expense of employment.

Still another change is the decoupling of the primary product market from the industrial economy. Many commodity prices have collapsed, for example tea, yet industrial economies have been relatively affected. Unfortunately the prime producers have been dramatically affected.

Finally, the most significant change is the change of focus from domestic to the world economy as the chief economic unit. This has been grasped by Japan and Germany, but not really by the USA, or Africa. These factors have repercussions on exporting by developing countries. Firstly with developing countries' emphasis on the export of primary products, they are at the mercy of world supply and demand movements, with the resultant fluctuations in prices. Depressed world market prices can have a deleterious effect on developing economies. Secondly the rapid globalisation and focus away from domestic economies has created global competition and in turn, this has pushed up quality. Generally speaking, unless developing countries can break into non-comittally based products they are being further left behind in the global economic stakes. However positively, whilst developed worlds concentrate on industrial and service products it leaves opportunities for developing countries to export more food based products.

The global economy

The development of the global economy can be traced back many hundreds of years when traders from the east and west came together to exchange goods. However, the growth of the modern global economy is marked by a number of features as follows:

The legacy of mercantilism 1500-1750

The prevalent wisdom was one of nationalism, that is, that one nation prospered at the expense of another. Nations like the UK, Netherlands and later France and Germany, with powerful navies which ruled the waves in the West, and the traders of the East, dominated that area. Over time, nationalism gave way to bullionism, where

gold and silver, rather than other raw materials, became the basis of wealth. Still later, domination took another form, where countries were believed to be powerful if they had a favourable balance of trade - an excess of exports over imports. Mercantilism died with the development of the United Nations (UN) and the General Agreement on Tariffs and Trade (GATT), along with Adam Smith's tome on the "Wealth of Nations" which advocated market forces as the principal driving force to development and wealth.

World trade

Economic progress is linked to world trade and those who preach trade restrictions are denying this fact. Countries like the old communist bloc (Russia, East Germany, etc.) have not developed as fast as those with more outward orientation. The same can be said of African nations, where the inability to industrialise and export in volume has locked them into, generally, primary product producers. Economic Structural Adjustment Programmes (ESAP) are supposed to remedy this situation by giving "command economies" a market oriented focus.

Another argument concerns whether marketing has relevance to the process of economic development. Less developed countries (LDCs) have traditionally focused on production and domestic income generation. Also, marketing addresses itself to needs and wants and it could be argued that where LDCs' productive capabilities are far less than unsatisfied needs and wants, then marketing is superfluous. However, adopting "marketing" could lead to the more efficient and effective use of productive and marketing resources and it may be able to focus on current needs and find better solutions. For example, techniques developed in the West for optimising transport resources could well be transferred to effect. Similarly, adopting new methods of marketing may give better results. A good example is the Cold Storage Company of Zimbabwe (CSC). By changing from the current system of marketing cattle (the CSC takes in cattle, at fixed prices and slaughters) to an auction system by description, all actors in the system could benefit.

Decisions in product, price, communications and merchandising can stimulate economic development. Changing from fixed price systems to market based pricing could lead to the faster achievement of development objectives (for example "higher incomes"). In current drought conditions in Africa, governments could well benefit from advertising other forms of nutritious food, for example, fish, rather than let the populace be left uninformed and disgruntled about the lack of maize.

Composition of world trade

Agriculture, minerals, fuels and manufactured goods figure most in world trade. However shifts are occurring (see table 2.1)⁶.

Table 2.1 Shift in commodity trade - % of world trade

Product	1980	1985%	1988%
Agriculture	22.5	1	14
Minerals	14	-5	14
Fuel	41	-3.5	1
Manufactures	17	4.5	1

Interestingly enough, those economies which have divested themselves of agriculture (or made it more efficient) and invested in manufacturing are those which have shown spectacular growth. Table 2.2 compares Zimbabwe with Thailand⁶.

Patterns of trade

Most industrialised nations trade with each other. This had led to their continued domination, particularly the USA, Western Europe and Japan which between them have 66% of world GNP and trade. In 1985 industrialised trade to other industrialised countries accounted for 47% of trade, next came developing countries to industrialised (15%), and finally industrialised to developing countries (13%). Political influences can also be seen between trading partners, for example Zimbabwe's trade with China. Marketers need to identify trading patterns between nations and product trading patterns. East-West trade and West to the former communist bloc is likely to grow at the expense of North-South trade.

Table 2.2 Structure of production

Country	GDP \$ m		Distribution of GDP %							
			Agriculture		Industry		Manufacturing		Services	
	1970	1992	1970	1992	1970	1992	1970	1992	1970	1992
Zimbabwe	1415	5350	15	22	36	35	21	30	49	43
Thailand	7087	110337	26	12	25	39	16	28	49	49

This pattern is repeated throughout Africa and Asia in general.

Comparative costs - comparative advantage

As discussed in chapter one, price has been called the immediate basis for international trade - cheaper prices based on different cost structures, especially labour. Countries trade because they produce and export goods in which they enjoy a greater comparative advantage and import goods in which they have a least comparative advantage. A further refinement of this is the international product cycle discussed fully in chapter one.

Balance of payments

This is the measure of all economic transactions between one nation and another. The balance of payments is made up of the current account, showing trade in goods and services; and the capital account, which shows financial transactions. In 1989, after official transfers, the USA had a US\$ 109,242 million deficit on its current account, Japan had a \$ 131,400 million surplus, Tanzania a \$ 778,5 million deficit and Zimbabwe a \$ 2,783 million deficit.

The balance of payments account helps marketers select the location of supply for foreign markets and the selection of markets. The capital account may show the nations which have control restrictions and hence be difficult to deal with. In this regard, African nations are generally disadvantaged.

Government policy

This refers to the government measures and regulations which have a bearing on trade - tariffs, quotas, exchange controls and invisible tariffs. These can cause formidable barriers to marketers and will be dealt with at length later.

World Institutions

Institutions like GATT and the United Nations Conference on Trade and Development (UNCTAD) have been of help to countries in their development. GATT had over 120 members and associated and accounted for 80% of world trade. Its intention was to create a general system of preferences and negotiate tariffs for members' products on a nondiscriminant basis and provide a forum for consultation. The Kennedy Round of the 1960s was superseded by the Tokyo round of the 1970s and that by the current Uruguay round signed in 1994.

UNCTAD furthers the development of emerging nations. It seeks to improve the prices of primary goods exports through commodity agreements. It also established a tariff preference system favouring developing nations.

Regionalism

Regionalism is a major and important trade development. Some regional groupings have either market (EU) or command (China) or mixed economies (former communist countries and The Preferential Trade Area (PTA) and The Southern African Development Community (SADC). With these developments, free trade zones have occurred (all internal barriers abolished) economic unions (the EU), export pricing zones (Mauritius) and other schemes. The major regional economic organisations are: Acuerdo de Cartagena (Andean Group), Association of South East Nations (ASEAN), Asian Pacific Rim countries (APC), Caribbean Community and Common Market (CARICOM), Central American Common Market (Mercado Comùn Centro Americano), Council of Arab Economic Unity, Economic Community of West African States (ECOWAS), the European Union (EU), Latin American Integration Association, Organisation Commune Africaine et Mauricienne, Preferential Trade Area (PTA) and the Southern African Development Conference (SADC). A principal collapse has been the Council for Economic Assistance (COMECON) with the disappearance of the communist bloc in Eastern Europe. Of these blocs, the EU (reporting 33% of world trade) and EFTA are very important. To counteract the growing power of the EU, the USA and Canada have entered into an agreement with Mexico as a willing partner and created the North American Free Trade Agreement (NAFTA).

These blocs are of various form, power, influence and success. ASEAN is a collaboration of industry and agriculture, PTA in tariffs. SADC and PTA have had historically little impact but are now beginning to grow in importance in view of the normalisation of South Africa. The EU, North American Union and the Pacific Rim Union will pose the greatest power blocs in future years. Many developing countries have entered into trading blocks as a reaction against loss of developed country markets or as a base to build economic integration and markets.

The development of trading blocs can bring headaches and advantages to trade. It is worth comparing the European Union, a relatively well developed bloc, with SADC and the PTA which are well developed. SADC and PTA are described in a little detail in appendix one and two of this chapter.

The international financial system

Global financing operations based on the gold standard gave rise to instability, so Bretton Woods, post World War II, saw the nascence of the International Monetary Fund (IMF) and World Bank.

The IMF deals with the International Monetary System. Involved countries joined IMF to establish a par value for other countries in terms of the US dollar and maintain it with +/- one percent of that value. The system fell down because large corporations were holding more funds than banks and so a "float" set in. IMF began to fade somewhat. However it still lends, on a short term basis, to countries with payment problems to help them continue trading.

The World Bank, or International Bank for Reconstruction and Development (IBRD) deals with international capital. It provides long term capital to aid economic development. Currently it has about US\$ 22 billion annually for this operation. The role of the World Bank has often been criticised especially on its conditionalities for loans to Africa in funding structural adjustment and trade liberalisation programmes. However many developing countries require institutional funding to help them with trade and balance payment problems.

Other major lenders include the EU and bilateral donors and agencies who have provided money for developmental projects. A principal donor is the United States Agency for International Development (USAID).

The United States of America

Since the Gulf War of 1991, the USA has played an increasingly important role in the economic affairs of the world. Since that time, itself, and its agency USAID, have increasingly flexed their muscles. However, the balance of economic power in recent years, has shifted towards the Pacific rim, especially Japan and the Asian Tigers.

Individual economies

Whilst the global factors listed above have aided the development of a world economy, marketers must consider carefully individual economies. A study of these helps answer the questions - how big is the market and what is it like? Currently there are over 200 individual countries in the world.

Size of market

General indications of market size include population (growth rates and distribution) and income (distribution, per capita, GNP).

a) Population: In general, the larger the population, the bigger the market. However there is no correlation between income level and population. China has 2 billion plus people, India 1 billion, Zimbabwe 8 million. However, they do not have the same income per capita as the USA or UK. In 1993 the USA population of 252.2 million, the UK 57.4 million and Africa 400 million, were respectively 6%, 1.5% and 9% of the world's population. However the USA and UK had an infinitely higher GNP per capita income than Africa, US\$ 22,520, UK \$17,300 and Africa \$ 270 respectively (1989).

Different countries experience different population growth rates. In the early 90s, the UK had an annual growth rate of 0.1%, the Ivory Coast 6%, and Africa in general, 3% per annum. Low income countries and oil rich countries have the largest growth rates. Growth rates have a dual edge - they are good for sales but bad for world resources. The world population, currently standing at 5 billion is experiencing a rapid growth rate. It is expected to reach 7 billion by the end of the century. The strain on world resources is likely to be very large. The distribution of the population is also important. Different age groups have different needs and population density should mean good market potential, the higher the better. The Netherlands have 1000 persons per square mile, Bangladesh 1,791 but the USA only 65 persons per square mile. However, the USA spends more per capita than Bangladesh

b) Income: No one has yet been able to assess accurately the impact of the AIDS pandemic on world population and economic activity. South Africa estimates AIDS will cost South African industry R16.7 billion by the year 2000 (Business Herald - Nov. 24.1994). Suffice to say, unless a cure or prevention is found, it could be serious, especially in Africa and South East Asia, the world's "hot spots"

Income is the most important variable affecting market potential. Markets are not markets without money to spend. Interestingly, there is an inverse correlation between GNP per capita and income elasticity of demand for food. Asia has a 0.9 income elasticity of demand and the USA 0.16.

The distribution of income is very uneven. In Kenya the lowest 20% of the population receive less than 3% of national resource. This bimodal distribution of income means marketers must analyse two economies in a country. Per capita measures have therefore, many limitations. Per capita judges a country's level of economic development and its degree of modernisation and progress in health, education and welfare. Half of the world's population lives with an average per capita income of

only US\$ 270. Per capita is usually reflected in US dollars and is only valid for comparison if exchange rates are equal. Exchange rates reflect international goods and services in a country but not domestic consumption.

Another limitation of per capita measures is the lack of comparability with the figures themselves. The US budget contains food, clothing and shelter. In many of the less developed nations these items may be largely self provided and therefore not reflected in national income tables. Also in the UK, snow equipment is included, and this is not, obviously, in Africa and parts of Asia. Other limitations are that sales of goods are not well correlated with per capita income and if there is great unevenness in income distribution, per capita figures are less meaningful. Product saturation can be equally troublesome in affecting market potential. A vacuum cleaner in the Netherlands has a 95% household penetration rate, but only 7% in Italy.

Gross National Product is a better indicator of potential than Gross Domestic Product as GDP includes more than "product". World GNP figures reveal the concentration of wealth in the three nations, the USA, Japan and Western Europe. Africa trails far behind (see table 2.3)³.

However, when evaluating markets it is wise to consider individual product areas. For example, Belgium's GNP is better than India's but India's, consumption of steel is 3 times that of Belgium's.

Table 2.3 GDP and GNP of selected countries

	GDP US\$ bn	% of World	GNP US\$ bn	% of World
USA	5670	35	3000	29
UK	903	6	540	5
Africa	322	3	220	3

The United Nations International Comparison Project (ICP) developed a sophisticated method for measuring total expenditure, which has been used to derive more reliable and directly comparable estimates of per capita income. The World Bank has published a comparison of ICP findings with its own Atlas figures based on the exchange rate conversion. The use of exchange rates tends to distort real income or standard of living measures.

The nature of economy

More than money makes up an economy's economic environment. Natural resources -raw materials now and in the future are important. If synthetic gold or tobacco were developed or, in the case of the latter, became unfashionable, Zimbabwe's economy would be ruined.

Topography may produce two, three or more submarkets in a country. Zambia, for example, has "rural" and "urban" areas with different needs and wants.

Extremes of climate - like the Southern African drought in 1992 can devastate economies and derail any economic development plans and exports. Simply, products are not available to export, because they are being consumed by the domestic economy.

The nature of economic activity

Economic activity is often correlated to the type of economic activity. Various methods have been derived to classify economies. These are:

Stages of market development

Global markets are at different stages of development which can be divided into five categories based on the criterion of gross national product per capita.

- i) *Preindustrial countries* - incomes less than US\$ 400 GNP per capita. Limited industrialisation, low literacy rates, high birth rates, heavy reliance on foreign aid, political instability. Parts of Sub-Saharan Africa. Little market potential.
- ii) *Less developed countries* - per capita between US\$ 401 and US\$ 1,635. Early stages of industrialisation, growing domestic market, mature product markets, increasing competitive threat.
- iii) *Developing countries* - per capita income between US\$ 1,636 and US\$ 5,500. Decrease in percentage of agricultural workers, industrialisation, rising wages, high literacy rates, lower wage rates than developed countries, formidable competitors.
- iv) *Industrialised countries* - per capita income between US\$ 5,501 and US\$ 10,000. Moving towards post industrialisation, high standard of living.
- v) *Advanced countries* - per capita income in excess of US\$ 10,000. Post industrialisation, information processors, knowledge based, less machine based. Product opportunities are in new products, innovations and raw materials plus fresh foods.

The World Bank classification

The World Bank has drawn up a classification of economies based on GNP per capita.

- i) Low income economies, China and India, other low-income-GNP per capita income of between US\$ 675 or less, 41 nations including Tanzania, Kenya, Zambia and Malawi.
- ii) Middle income economies, lower middle income, GNP per capita of between US\$ 676 and US\$ 2,695, 40 nations including Zimbabwe, Mexico and Thailand.
- iii) Upper middle income, GNP per capita of between US\$ 2,676 and US\$ 8,355, 17 nations including Brazil, Portugal and Greece.
- iv) High income economies, OECD members and others, GNP per capita of between US\$ 8,356 or more, 24 nations including UK and the USA.
- v) Other economies - communist bloc.

Mozambique and Switzerland are the two extreme ends of the spectrum with US\$ 80 per capita and US\$ 29,880 per capita respectively.

Rostow: Whilst economic in nature, Rostow (1971) produced a five stage model of economic takeoff:

- Stage 1 traditional society, little increase in productivity, no modern science application systematically, low level of literacy
- Stage 2 the preconditions of takeoff, modern techniques in agriculture and production, developments in infrastructure and social institutions

- Stage 3 the takeoff, normal growth patterns, rapid agricultural and industrial modernisation, good social environment.
- Stage 4 the drive to maturity, modern technology applied to all fronts, international involvement, can produce anything
- Stage 5 the age of high mass consumption, production of durable goods and services, large amounts of

These classifications enable marketers to assess where and how to operate in countries which may display the stage characteristics. For example African exporters would look to stage 4 and 5 economies to obtain the greatest revenue opportunities for other produce.

Another way to assess the market alternatives to a potential global marketer is to look at the origin of its national product - is it farm or factory generated? Farm workers tend to have low incomes. Input-output tables provide other insights into a country's potential, that is, what inputs go into a particular industry's output? What combination of labour, materials and equipment?

Infrastructure

Infrastructure is a very important element in considering whether to market in a country or not.

Transportation, for example, is vital. Zambia and Zimbabwe are landlocked and have relatively poor transport facilities. Tanzania, whilst having direct access to the coast, has also a relatively poor internal rural infrastructure. Chaos can therefore ensue, especially during the rainy season. Without being able to get produce to the point of exportation, countries will suffer poor export performance accordingly.

Energy consumption shows the overall industrialisation of a society as does its infrastructure. The less energy is consumed, the less likely the development of the market resulting in a not too attractive market proposition.

Communications are essential. India has only some 10 million telephones to a population of 1 billion people. Media availability is important. Zambia has 680 radios per 1000 population, France 2,059 per 1000. Malawi has no domestic television service but access to satellite television.

Commercial infrastructure is also vital - banks, accountants, advertising agencies and other services. Without these "transaction" facilities, exporting cannot take place.

Urbanisation

Differences exist between "urban" and "country" dwellers. City dwellers may have more income, more developed communications and access to new products. Developing countries tend to suffer from rural drift, but without the accompanying incomes characteristic of developed countries. So when assessing market opportunities widespread urbanisation is no guarantee of a good market potential.

Other

Inflation causes havoc with economies and foreign exchange. For example Zambia has an unofficial inflation rate of over 100%, which makes it difficult and expensive to access capital for investment and obtain pre-export finance.

The role of Government is essential. Some encourage joint ventures and investment, others do not. The number of international companies operating in an economy can be both good and bad. Japan's investment in the USA and UK is high, creating jobs,

but gives rise to negative feelings because access to Japan is not so easy. This has led to calls for protectionism. Similarly, flows from developed countries to less developed ones are generally one way. This leads to instability in the underdeveloped country because it has no "hostage" leverage.

Repatriation or transfer of dividends can be an issue which can detract from investment if negative facilities exist. This can seriously undermine economic development and trade.

Many African countries are undergoing structural adjustment and trade liberalisation programmes. In some cases, these have met with limited success. They can create market opportunities, but they also can cause internal economic upheavals for long periods of time, detracting from investment by outsiders and limiting the export opportunities, especially if interest rates rise, as is often the case.

The economic environment is one of the major determinants of market potential and opportunity. Careful analysis of this, particularly income and the stage of economic development is essential. Failure to do so will lead, at best, to sub optimal opportunity and, at worst, to disaster. Less developed countries like Africa, are at a disadvantage, due to their primary material export dependence. It behoves these nations in the continent to derive policies and strategies for rapid industrialisation, or forever to be at the mercy of world demand and prices.

Chapter Summary

Economic factors are just some of the "environmental uncontrollables" which marketers must consider when deciding to market globally. The global economy can be traced back hundreds of years when traders from the east and west came together to exchange goods. Through the legacy of mercantilism up to the current GATT Round, marketers have had to contend with changes and developments in the economic environment, including the growth of regional economic blocs, all aimed at increasing cooperation between the grouped nations.

Markets differ widely in their size and state of development world wide. It would be too easy to classify these markets as "rich" or "poor", "developed" or "less developed", although this is often done for ease of analysis. Countries show great within country differences also and marketers have to be aware in assessing market potential that they do not use general descriptions of nations as criteria of whether to, or whether not to, open trade negotiations.

Key Terms

Balance of payments	Gross National Product	National income
General Agreement on Tariffs and Trade	International Monetary Fund	World Bank
Gross Domestic Product	Mercantilism	World Trade Organisation

Review Questions

1. In what way has the global economy changed in the last 50 years? Why?
2. Discuss the various measures for assessing the size of market potential. What are the problems in the assessment? Give examples.

Review Question Answers

1. The Global economy has experienced the following changes

- a) Capital movements rather than trade have become the driving force of the global economy.
- b) production has become "uncoupled" from employment.
- c) primary products have become uncoupled from the industrial economy.
- d) The world economy is in control.

Reasons

- a) World trade is some US\$ 3 trillion, whereas the London Eurodollar market - alone is some US\$ 75 billion per annum and foreign exchange transactions were US\$35 billion per annum. Interest and exchange rate - gains are often more lucrative than investment in goods and services manufacturing.
- b) Employment is in decline while manufacturing either grows or remains static. Sectors are becoming more productive, with injections of capital equipment and new technologies.
- c) Commodity prices may collapse but industrial economies can be unaffected.
- d) World trade is recognised as vital to economies as domestic growth slows down and opportunities overseas grow. Growth achievable in international trade is often at a greater rate than domestically and the returns higher. (Ask students to find the figures which can be gained for rates of growth and returns on capital employed in International trade.)

2. Measures for assessing market potential are

- a) Size of market - population, income (GNP/capita)
- b) Nature of the economy - urban and rural
- c) Nature of economic activity-preindustrial, less developed, developing, industrial, advanced.
 - World Bank classification
 - Rostow's five state economic tale off model.
- d) Infrastructure
- e) Inflation
- f) Role of Government - laws, rules, regulations, stability
- g) Economic environment - confidence, history, stability.

Problems in assessment

- a) Data too general and non specific
- b) Data may be out of date
- c) There may be lucrative segments hidden by the general data
- d) Data may be invalidated or false
- e) Data may be incorrectly gathered and reported
- f) Units of reporting may differ from country to country
- g) Data gaps or nonavailability.

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Appendix 2A: European Union

[Consumers](#)
[The changing structure of the retail trade](#)
[Changes to the wholesale trade](#)
[Packing requirements for self-service](#)
[Market overview](#)
[Barriers to trade in the EU](#)

Introduction

In 1950 the governments of Belgium, France, The Federal Republic of Germany, Italy, Luxembourg and the Netherlands began negotiating to integrate their interests in specific fields - notably coal, steel, foreign affairs and defence. The latter two were aborted but in 1951 the European Coal and Steel Community came into being with the Treaty of Paris, thus creating the embryo European Union of today.

In 1957, with the members the same as for the European Coal and Steel Community, the European Community (EEC) and the European Atomic Energy Community (Euratom) came into being. The three communities were distinct until 1967, when they merged their executives and decision making into a single European Community (EC). EC plans for economic and Monetary Union (Maastricht 1994) have been discussed, and there has been increased coordination on foreign policies and research and development. Since 1975, the EC has had its own revenue independent of national contributions from memberships.

The community has been gradually enlarged since 1967 with the accession of the UK, Ireland and Denmark in 1973, Greece 1981, Portugal and Spain in 1986 and Austria, Finland and Norway in 1994. Sweden's population turned down membership by referendum although it negotiated to apply. There are now currently 15 members in total, Turkey, Cyprus, Malta and Switzerland are applicants and the Czech Republic, Hungary, Poland and Slovakia have indicated that EC membership is a long term aim.

Change from EC to the Economic Union (EU)

In 1992 the EC achieved a single European Market in which all duties, tariffs and quotas have been removed on trade between member states and many obstacles to the free movement of people, money and goods have been abolished within the community. 1993 was the first year in which member states operated in a totally free trade area. This led to a change of name and outlook from an Economic Community to an Economic Union. The current community is the largest free trade area in the world - bigger than the USA and Japan combined, and has a total of 370 million consumers.

The institutions of the EU

There are four main Institutions - the Commission, the Council of Ministers, the European Parliament and the European Court of Justice (see figure 2A.1)

The Commission: This consists of 17 members appointed by their national governments for a period of 4 years. The Commissioners elect a president and 6 vice presidents from their members. The Commission acts independently of national governments and makes proposals to the Council of Ministers and executes the decisions of the council. The Commission meets in Brussels, Belgium.

The council of ministers: This is the main decision body of the EU. The Council consists of the foreign ministers of EU member states. Heads of Government meet three times a year as the European Council, but specialist councils can meet at other times. The presidency of the Council of Ministers rotates with each member state taking the chair for six months. Ministers represent national interests and their decisions are usually unanimous although there is provision for majority voting.

The European court of Justice: This consists of judges and advocates general appointed for years by the governments of member states acting in concert. At least one representative is appointed from each member state. The court is responsible for deciding upon the legality of the decisions of the council of ministers and the commission and for adjudicating between the states in the event of disputes.

Figure 2A-1 The institutions of the EU

The European Parliament: This consists of some 600 members elected for five years by adult voting in member states. Members (MEP's) have the right to be consulted on legislative proposals submitted by the Council of Ministers or the Commission and have the power to reject or amend the budget of the EU. The Parliament meets in Strasbourg, its committees in Brussels and its secretariat in Luxembourg.

The EU since 1992

In order to achieve freedom of movement, there have been many changes in key areas of business, such as company law, product standards, transport and VAT. Inspection schemes, grading standards, labelling and price reporting are now almost standard throughout all EU member states. In practice this means that no regulatory checks are imposed at the internal frontiers in the Union, and that all road haulage permits and quotas for trade between member countries have been abolished. Many time-consuming delays at border crossings have been eliminated, to the great advantage of traders in perishable goods. However, trader based controls do exist to provide adequate safeguards in order to protect the Community's high standards of hygiene and plant health.

The creation of the EU free trade area will not lead to higher tariffs for imports of tropical produce from developing countries. However, existing restrictions within the framework of the EU have been kept in place. Products that do not meet the new harmonised requirements will not be allowed into the European market.

A further implication of the EU free trade area for overseas producers is the protection of the home market. If a product is grown within the EU itself, then suppliers from outside the community can market their produce only during the off-season period. If a product is not grown within the union, developing countries can market their produce to Europe the whole year round. Recently, Southern European growers have started producing kiwi fruit, avocados and lychees, and by using polythene coverings, have greatly extended the season for harvesting salad crops. Suppliers from developing countries will see their marketing opportunities for these products restricted to the off season alone, because European growers have the competitive advantage of direct free access to the single market, and lower transportation costs.

Consumers

The European consumer has become very discerning and requires high quality fruits and vegetables. The main trends which have contributed towards the increased consumption of exotic fruits and vegetables are foreign travel, the need for a healthy nutritious diet, greater affluence, and a willingness by consumers to try new and exotic products. In addition, greater product mobility (transport, specialised storage and handling facilities etc.) has increased consumer accessibility to a wider range of products such as exotic and off-season products. This has led to a new class of consumer with more sophisticated tastes and requirements, to which importers pay particular attention.

The changing structure of the retail trade

The liberalisation of trade in the community has had its effect on the structure of retailing in many states.

There has been a general shift of power from producers and suppliers of goods to retailers. In most countries, the small independent retailers are in general decline.

In Germany, France, the Netherlands and the UK the big supermarket chains now completely dominate the food retailing sector with market shares of over 50%. In Scandinavia and Germany, buying groups and voluntary chains are far more important. In the southern Mediterranean countries, such as Portugal, Spain, Italy, and Greece, the food retail structure remains much more fragmented. As yet, the supermarkets and hypermarket outlets play only a minimal role in food retailing in these countries. In Belgium, Norway and West Germany the local food specialist remains important.

One of the most significant changes that is currently taking place is the expansion of some of the large supermarket chains into other member states, and into the former German Democratic Republic and Eastern Europe. Thus the German discount store Makro has come to Britain and France, and the chains Tengelmann, Rewe, and Edeka have opened stores in the East. Meanwhile, French retailers have moved into Spain and Italy and are reported to be gaining a market share.

The multiple retailers are becoming increasingly powerful and have gained strong bargaining power vis-a-vis suppliers. This is due to the concentration and consolidation that has been taking place in the industry over the last ten years. The growing strength of the multiple retailers is resulting in rapidly increasing co-operation at international level. One example is Associated Marketing Services (AMS) a group based in Switzerland, in which leading chains of many European countries co-operate. AMS develops common marketing, buying and own brand production programmes for all suppliers to these retailer groups. It looks for common sourcing and shipping programmes for major product lines from southern hemisphere countries as well as summer fruit from northern Europe.

It has been predicted that by the year 2000, 70% of all goods bought in the EU will have been sold by large retail chains. Therefore by obtaining a contract with a single retail chain, a supplier can gain access to a much wider market than was once the case. In the exotics sector however, a significant proportion of trade is likely to remain in the hands of independent specialists.

Changes to the wholesale trade

The strength of supermarket buying power has directly affected the traditional role of importers and wholesalers of fresh produce. Those importers which have geared up to supply the supermarkets have expanded rapidly, and brought about a dramatic change in the nature of their business. The most successful have moved out of the

wholesale commission markets, where capital requirements were modest, to new warehouse type premises, and begun to undertake packing, storage and national distribution to high standards.

The investments for these developments has come from mergers and acquisitions within trade itself, with the more powerful firms seeking an international presence. Examples of this are the expansion of the British companies Albert Fisher and Geest into Germany, and Fruttital's presence in Spain and the USA.

Meanwhile in the wholesale markets the growth of the catering sector is very much in evidence. The requirements of this industry for quality fruits and vegetables, means that it is becoming increasingly difficult for exporters to get away with sending inferior quality for sale in the wholesale markets.

The wholesale sector will be under severe pressure during the next decade. Those companies most likely to survive are the ones which can meet all the logistical requirements of the supermarkets, where the buyers now look for large volumes of product consistent in quality and supply. Aspects of supply have become more rigidly controlled, notably quality standards, hygiene in packing, packing standards and transportation.

The recent developments in the trade have had the effect of shortening the marketing chain. However, the concentration of buyers into fewer, more powerful organisations has increased their expectations of suppliers and the degree of competition among producers. It is essentially a buyer's market.

For the importer, reliability in delivery and quantity are the most important factors in choosing between different suppliers. Many suppliers are quite vulnerable as far as importers are concerned, and can find themselves replaced at short notice. However, many established importers provide technical and marketing assistance for their suppliers, and may even be prepared to take on freight charges if they think that a supplier has sufficient potential. It is therefore essential for any supplier from a developing country to try to establish long term relationships with wholesale importers.

Packing requirements for self-service

Supermarkets sell their produce by "self-selection" in which consumers select produce for themselves and pay for everything at a cash desk at the exit to the store. Produce may be presented "pre-packed", when a small number of units, such as 125 grammes of baby corn, are wrapped in clingfilm; on a small tray, and pre-priced. Alternatively produce may be presented as "free-flow", when it is often in bulk, and the consumer selects the items required. They are then weighed and priced at the check-out.

If produce is to be prepackaged, economics often dictate that it is done at source. Many of the larger supermarkets, especially the British stores, insist on a high standard of hygiene in these local packhouses: buyers travel overseas to inspect production areas and packhouses, usually in association with a wholesaler. Requirements can be wide-ranging to cover standards of construction, maintenance, quality control and hygiene, all of which increases the investment incurred by a producer. It is important that the true cost of these investments is considered when produce selling prices are calculated.

Market overview

The overall consumption of fresh fruits and vegetables in the EU has been fairly static or even gradually declining in some countries for some years. The total value of imports into the EU was worth US\$36,438 million in 1992. Demand for fresh vegetables has been falling in favour of convenience products. Consumption of fruit

is however increasing. This has been fuelled by the interest in healthy eating and to some extent by the fashion for exotic fruits. Between 1987-1992, there was growth in the value of imports into all EU markets. The sector exhibiting the strongest growth has been exotic fruits and vegetables.

Europe is a heterogeneous market, in spite of the single market. Consumer preferences differ from one country to another. For example, in Germany consumers place particular importance on price, in the UK they are said to 'eat with their eyes', whereas in France consumers are quality conscious. Import penetration into the Southern European markets is far lower. This market probably offers the most potential for taking more imports. Consumers here have closer cultural associations with seasonality, and place much more emphasis on taste and freshness.

The largest market for exotics and off-season products in the EU is the UK. This is followed by France and Germany with differences in emphasis between markets. Most of the imports into the Netherlands are re-exported.

The United Kingdom

The United Kingdom (UK) is a leading European market for off-season fruit and vegetables, and one of the largest markets for exotic produce. In 1992, total imports of fresh fruits and vegetables were valued at US\$5,543 million. Imports grew in value by 31 per cent between 1987-1992. Its population of more than 56 million is fairly affluent, and demand for off-season produce continues to grow. The UK relies on imports for more than 50% of its fruit supplies. While traditionally it has been more self-sufficient in vegetables, changing tastes and lifestyles have increased the demand for off-season items.

The ethnic population, about 5% of the total, are mostly of West Indian or Asian origin. A large concentration of ethnic groups in many urban areas provides a substantial market for fruit and vegetable types that have not yet been accepted by the indigenous population.

France

France is twice as large in area as the UK, but has a similar population, of around 53 million. Over a fifth live in the Paris area, which is easily the largest conurbation in the country. The rest of the population is well scattered in smaller cities, towns and villages. France has excellent surface transport links with the neighbouring EU states of Belgium, Germany and Spain and also with Switzerland.

France is a major market for tropical and off-season fruits and vegetables in general, and is the largest European market for pineapples, green beans and several other exotic products. In 1992, total imports of fresh fruits and vegetables were valued at US\$5,789.3 million. Imports increased in value by 39 percent between 1987 - 1992. French consumers are extremely quality conscious; they prefer fresh ingredients to frozen or canned products, and are willing to pay high prices for the best produce. Demand is expected to continue to grow.

France is a larger market for off-season items than true exotic produce. However, the demand for exotics is strong and the French are willing to try new products, and will buy in large quantities when accepted. In addition, there is a large community of foreign workers in the country; they originate mainly from North Africa, Spain, Portugal and from French overseas departments in Africa and the Caribbean, and boost demand for exotic produce. Supermarkets, especially in the Paris region, now try to display a range of exotic produce at all times.

Germany

Germany is the largest market for fresh produce in Europe. With a population after

unification of 78 million, it is the largest nation in the EU. It imports almost 50% of its vegetables, and two thirds of its fruit requirements. Imports of all fresh fruits and vegetables were valued at US\$12,593 million in 1992. While political changes have imposed great economic strains, German consumers are still on average among the most wealthy in Europe.

For its size, Germany is a relatively small market for tropical fruit and particularly for tropical vegetables. There is an immigrant population of around 3 million workers from countries such as Greece, Italy, Portugal, Spain and Turkey which creates a demand for fresh Mediterranean type fruit and vegetables. Unification has increased the demand for mainstream imports such as bananas and citrus fruits in the former German Democratic Republic, but not as yet for specialist exotic produce.

Belgium

Belgium lies at the heart of the EU. It is a major focus of commercial and political life in Europe, and its capital Brussels, as the head-quarters of the Community, has a wealthy and cosmopolitan community.

Belgium has a population of under ten million. It is one of the most crowded countries of the world, with about 800 people per square mile. About 95% of the Belgian population is urbanised. Therefore despite its small size, it is an important market for purchased foodstuffs. The population is split almost 50:50 into Flemish-speaking people and French-speaking Walloons, while the capital, Brussels, has a mixture of two groups. However, there is no ethnic market of any significance. There is a strong tradition of market gardening. Vegetables are an important crop and feature strongly in the diet. Local glasshouses are used for the production of off-season vegetables and flowering plants. Belgium is also renowned for certain specialist crops such as chicory and endive.

Despite its small population, Belgium is a promising market for tropical produce of high quality. In 1992, the total value of fresh fruits and vegetables was valued at US\$2, 660.1 million (this includes Luxembourg). Between 1987 - 1992, the value of imports grew by 53 percent. In the French -speaking part of the country, and the city of Brussels, the extremely quality conscious consumers prefer fresh produce to frozen or canned goods. However, the demand for imported off-season produce will remain limited by the output from its own glasshouses. Nevertheless, due to its position, Belgium is an important entrepot for neighbouring countries: it lies between the major European heavy industrial areas of northern France, the German Ruhr, and the Netherlands. Antwerp, on the River Scheldt, is a key shipping port for northern Europe and the country also handles a great deal of passing trade between its neighbours and the UK. Therefore an exporter to Belgium may gain access to a far wider market than that in the country itself.

The Netherlands

The Netherlands is a small country, a little larger than Belgium, situated around the river estuaries of the Rhine, Scheldt and Meuse bordering the North Sea. It is the most densely populated country in Europe, with around 15 million inhabitants. The Netherlands' position at the gateway to Europe, with excellent port facilities and river links to Germany and Belgium, has importance in fostering commercial trade, and the Dutch have a long history as traders and entrepreneurs.

The population has a relatively high standard of living. The Dutch are well travelled and commercially aware, and are generally willing to try the new products among the wide range of articles available in their supermarkets and specialist greengrocers' shops. About 4% of the population is of ethnic origin, mainly from Surinam, Turkey and Morocco.

The Dutch economy is centred around intensive agricultural and horticultural

production from its rich marine silts, combined with trade. It has a considerable glasshouse production of 4,500 hectares, producing vegetables and flowers which are marketed via grower-owned auctions. Aubergines, capsicums and tomatoes are important protected crops. It is also a major producer of vegetables in the open, and of deciduous fruit. Despite this home production, the Netherlands actually imports three-quarters of its fruit requirements, and a quarter of its vegetables. Much of this is tropical off-season produce.

The bulk of home production is exported, and this has attracted a very considerable entreport trade. Hence the Netherlands is one of the largest importers of fruit and vegetables in Europe. In 1992, total imports of fresh fruits and vegetables were valued at US\$4,263.3 million. Total imports of fresh fruits and vegetables increased in value by 41 percent between 1987 - 1992. 30% of imported fruits and 45% of imported vegetables are re-exported to other European countries. To give some examples, the Netherlands is the second largest European importer of melons, French beans and strawberries, and the third largest importer of mangoes. Exotic produce accounts for about 20% of fruit and vegetables imports. In addition there is a substantial transit trade, particularly in citrus fruits, which is not recorded in the import and export statistics.

Despite the importance of agriculture in the economy, 88% of the population is urbanised. Indeed the region between the country's largest cities, Amsterdam, Rotterdam, The Hague and Utrecht, is so densely populated that it is referred to as one big city, the Randstad. Forty five percent of the Dutch live in this region.

Being major producers of fresh produce in their own right, the Dutch are significant consumers of fruit and vegetables. They are discriminating buyers, and only produce which is first class in appearance and taste will fetch a good price; however, they are also very price-conscious. Recent improvements in their standard of living and attention to health issues has increased the demand for fresh rather than processed produce, and for exotic and off-season items. Twenty years ago, the import of exotic produce was negligible. In 1975, for example, consumption of exotic fruits was 100 grammes per person. By 1990 consumption had risen to 1.5 kilogrammes per person, and is still increasing. Green beans, strawberries, asparagus and melons are especially popular.

In the longer term, the Netherlands' own glasshouse production of produce is likely to be constrained by energy costs and the increasing stringency of environmental controls. Combined with the rising demand for off-season items, the volume of imported produce is expected to increase.

Italy

Italy has a similar population to that of the UK and France, of around 57 million. It is a large and immensely varied country in both climate and culture, extending from the Alps southwards into the same latitudes as North Africa. Its urban population - 60% of the total - is mainly concentrated in the northern Lombardy plain, between the Alps and the Apennines, which is the industrial heartland of the country.

In 1992, total imports of fresh produce were valued at US\$2,459.5 million. Imports grew in value by 51 percent between 1987 -1992. There is practically no ethnic market for true exotic products in Italy, and the indigenous population is catered for by Italian grown produce, which has a long production season and is cheap, plentiful and wide-ranging. The demand for off-season and exotic produce, especially vegetables, is therefore very limited.

Barriers to trade in the EU

The European trade in fruit and vegetables is currently regulated by a variety of EC and domestic directives.

Although there is an intention to harmonise all the national regulations into EC-wide standards, this process is taking its time. There remain significant differences between importing countries on a number of issues. To describe in detail the regulations in each major market goes beyond the scope of this document, and should be aware and kept constantly informed about the plethora of EU restrictions and legislations. This is in addition to the recent GATT Agreement concluded in April 1994.

The exporter should discuss the regulations with a knowledgeable importer as part of the planning stage of an export project. This 'information gathering' process should be maintained on an on-going basis. This is essential given the complex nature of the EU regulations and GATT provisions and the uncertainty surrounding some of the issues. It is still not clear what the outcome of some of these issues will be and how they will be implemented. The following notes review the issues involved. They focus and highlight on those issues which are most likely to affect LDC's current and potential exports of horticultural products, citing Zimbabwe as an example.

The barriers can be grouped as follows:

- Tariffs and quotas
- Quality standards
- Pesticide residues
- Hygiene issues
- Packaging.

GATT

The GATT system was established in 1947 by 23 Western countries, and by December 1993 membership had increased to 114 contracting nations. GATT's aim is the liberalisation of world trade, a process involving the abolition of quotas and other non-tariff barriers, and the gradual reduction of tariffs. The GATT principles are founded on non-discrimination, transparency and reciprocity in tariff reduction.

All GATT members are entitled to the same treatment on import into a particular country (the most Favoured Nation, or MFN Clause). Transparency is achieved if all import barriers are converted into import tariffs (as reflected in the quest for 'tariffication' of all border measures protecting domestic farm sectors in the context of the Uruguay Round of GATT negotiations).

Since the establishment of GATT there have been several 'rounds' of international trade negotiations. The most recent and extensive, the Uruguay Round was launched in 1986 and, after several extensions, concluded in December 1993. The Agreement was launched in Marrakesh in April 1994, and after ratification, came into force in 1995. GATT has since been replaced by the World Trade Organisation (WTO).

Existing tariffs and quotas: The application of tariffs and quotas to imports into the EU has now been harmonised across the member states. A commodity will attract the same tariff irrespective of the port of entry, and once imported goods are free to circulate within the EU without further duty.

A duty regime exists for many of the products in the present study. While most are not subject to quota, a levy is raised or lowered on, for example, sweetcorn depending on local supply. Where there is a tariff, a product may receive preferential treatment as originating in an ACP (African, Caribbean & Pacific). The preference is given either by lowering or by removing the tariff.

To benefit from these preferences, the exporter must ensure that each shipment is accompanied by documentary evidence that the goods comply with the rules of

origin. To be classified as ACP, Form EUR 1 must be supplied. Forms should be available locally, but can otherwise be supplied by the importer for completion.

Where there is duty to be paid, the tariff is shown as a percentage which is usually applied to the value of the produce (often referred to as ad valorem).

For customs purposes the valuation of the produce may be arrived at either by transaction method, based on the price paid by the importer, or by the simplified procedure which uses predetermined values for the goods, set fortnightly across the EU.

The importer is responsible for customs clearance.

The EU's implementation of the GATT Agreement: The GATT Agreement is to be implemented as from 1995. The broad outlines of the EU's commitments on fruits and vegetables are discussed below. Specific reference is made to imports. Details of their implementation are as yet unknown. Commission proposals are expected before long, with Council decisions before the end of the year. For the moment, however, much of the following discussion remains speculative.

Listed below are some of the measures which are most likely to affect some of Zimbabwe's current and potential exports of horticultural products. These are as follows:-

- 20% reduction of most tariffs over the six-year transition period
- 36% reduction for some products. These include potatoes asparagus, dates, pineapples and avocados between June and November, table grapes for part of the year, and apples provided the minimum import price is respected.
- 50% reduction for some items. These include some nuts, avocados between December and May, and grapefruits from November to April
- A complete elimination of duty on coconuts and tropical fruits (under Tariff heading 080109091). These include the minor tropical fruits such as tamarinds, cashew-apples, lychees, jackfruit, sapodilla plums, passion fruit, carambola, starfruit, papaya.

The EU can improve upon the arrangements for the above products. It may not impose more restrictive import conditions.

For a number of products rather more complicated and protective arrangements are to apply. These products are currently subject to reference prices and, despite the GATT Agreement on tariffication, it is the EU's intention that minimum import prices (known as minimum entry prices) will continue to apply. The products are as follows:

- tomatoes
- cucumbers
- globe artichokes
- courgettes
- citrus, except limes and grapefruit
- table grapes
- apples
- pears
- apricots
- cherries
- peaches
- plums.

If the entry price/value of a particular consignment is below the minimum entry price then a countervailing charge will be levied. The maximum countervailing charge that can be levied is also specified in the tariff schedules as a maximum tariff equivalent. For tomatoes, in the period 1 November to 20 December for example, the charge is listed as Ecu 372 per tonne. There is, however, some uncertainty about the amount of the countervailing charge which will be levied. It is understood that if the shortfall is small, the countervailing charge will be set to equal the shortfall. If however, the entry price falls below 92% (88% for apples and pears) of the specified minimum entry price then the countervailing charge will be set to equal the full maximum tariff equivalent (i.e. Ecu 372 per tonne for tomatoes in the example quoted above).

The impact of EU legislation and the GATT Agreement on Zimbabwean exporters and other LDC's:

- Under the new GATT Agreement, the fall in duties by between 20 - 30% over the next five years and up to 50% for those products which do not compete with European production will bring some modest benefits to exporters, particularly 'off-season' suppliers.
- Although minimum entry prices are themselves set to fall by 20% between 1995 and 2000, they have been set for many products at levels higher than local wholesale prices. This creates an almost impossible situation for exporters particularly during the main European growing season. Detailed analysis by the Confederation of Fresh Produce Importers (CIMO) has shown that the entry prices are unrealistically high (often during the specific periods) for a number of commodities. These include oranges, clementines, lemons, apples, pears, plums, peaches, tomatoes, cucumbers and courgettes.
- As the Agreement stands, even for products exported within quota (and therefore duty free), when their import price is calculated to be lower than the entry price the exporter is liable for an additional tariff called the Maximum Tariff Equivalent (MTE). These tariffs are always set sufficiently high to render profitable exporting impossible.

There is little doubt that many of the EU regulations and new import regulations accepted under GATT are highly protectionist. Prospects for exporters may therefore become less attractive in some areas than they may have been before.

The entry price system effectively precludes the export of low quality, low value products. Non-EU suppliers must focus on obtaining high prices and the system will make it necessary for exporters to take greater responsibility for controlling volumes and managing the market.

The manner in which the system will be implemented is still to be resolved. Forceful lobbying and negotiation by export countries and their supporters could therefore reduce the negative impact.

Quality standards

The EU has agreed on a set of common standards for a range of fresh horticultural produce. They establish a specification for the commodity, and provide a simple classification based on quality and size.

Standards have been agreed for the following:

Fruit	Vegetables	Salads	Non-edibles
Apples	Artichokes	Aubergines	Flowering bulbs, corms and tubers

Apricots	Asparagus	Chicory	Cut flowers and foliage
Cherries	Beans (other than shelling beans)	Cucumber	
Grapes	Brussels sprouts	Lettuce and endives and batavia	
Kiwifruits	Cabbage	Sweet peppers	
Lemons	Cauliflowers	Tomatoes	
Mandarins (and similar hybrids)	Celery		
Oranges	Courgettes		
Peaches and nectarines	Garlic		
Pears	Leeks		
Plums	Onions		
Strawberries	Peas		
	Spinach		

In addition, quality standards are being considered for avocados, water melons, raspberries, grapefruit, broccoli and mushrooms.

The standards apply at all stages of distribution, including import, and the produce must comply with the standards, when provided, if it is to be traded within the EU. Recommendations, rather than legislation, for other produce can be found in the *UN/ECE Standards for Fresh Fruit and Vegetables* (ECE/AGR/55 United Nations, New York 1980 -1987) of the *International Standardisation of Fruits and Vegetables*, OECD, Paris 1962 -1987.

NB. New regulations make it possible to relocate EU border "Quality Control" inspection to the place of production, the country of origin, and to shift inspection to the company level and to trade associations working together with the State's Public Authorities. ACP countries need to organise to get "approved status" in place for their systems.

As a minimum requirement all produce must be

- intact
- sound
- clean
- sufficiently developed or ripe.

All standards should however be treated as a minimum requirement; it is more important to fulfill the customers' own specification which can be significantly more stringent.

Pesticide residues

Now a "Quality" concept within the EU environmental controls is increasingly being applied to horticultural production. The Netherlands is playing a pioneering role in this field. The Dutch government is planning to reduce air and soil pollution through insecticide use by up to 60% by the year 2000. It is expected that imported fruit may also have to meet the same requirements as European production in the future, and South Africa, for example, has already taken some initiatives in this respect.

In the basic Community Regulation EC/76/895 minimum levels of pesticide residues were established for a list of vegetables and fruit. Products with lower residues were established for a list of vegetables and fruit. Products with lower residue levels than those mentioned in the regulation were given free access to the market in each of

the member states. Individual states were allowed to accept higher levels of residues.

The EU Regulation 90/642/EC on Maximum Residue Levels (MRL) was adopted by the member states in 1990, but the list of MRLs is not yet complete. The Commission's target is to harmonise between 80 and 100 pesticides for 1995. Until this is achieved national measures will be retained. Produce containing residues in excess of an MRL can be seized or destroyed. Within the EU there is a conflict between the higher standards (i.e. lower levels of residue) preferred by the northern states, and the lower standards acceptable to southern states. The exception is Italy which accepts a more limited list of chemicals and permits a lower level of chemical residue to be present. This causes difficulties for the import of Southern Hemisphere apples, pears and kiwifruit in particular into the country.

If the pesticide manufacturers' instructions are followed, maximum residue levels are not likely to be exceeded. The following guidelines outline sensible practice:-

1. Only use approved pesticides.
2. Apply the pesticide according to the manufacturers' instructions. Pay attention to the maximum dosage rates and to the minimum harvest intervals.
3. Ensure that the pesticides are applied by trained operators.
4. Record all applications. Hold records available for inspection.
5. If possible, sample produce from time to time for independent analysis of residue.
6. Maintain contact with importers on the subject. Be aware of differences in regulations between importing nations. Implement any amendments to EU directives and legislation.

A "Compendium of Pesticide Regulation in the European Community" (Oct. 1989) has been compiled by EUCOFEL. Although regulation 90/642/EC on MRL's has been adopted by the Member States of the EU, a Phytosanitary Certificate should still accompany every shipment to ensure swift import although it is no longer mandatory for most fruit and vegetables.

Council Directive 98/39/EC regulates inspection, sampling and analysis. EC Council Regulation No. 3185/91 ensures protective measures for the import into the community of fruit and vegetables from certain countries affected by cholera.

A new Directive (93/43/EC published 14 June 1993) on the hygiene of foodstuffs will enter national legislation soon. While it is principally concerned with food preparation within the community it will probably form the basis of future regulations for imports to the EU.

Once landed in the EU, produce is liable to national food safety regulations, which again differ between member states. It is, therefore, important to clarify these issues with the importer.

In general, the UK food hygiene regulations are among the most demanding in the EU. Produce suitable for import to the UK is therefore likely to be acceptable, on hygiene grounds, elsewhere in the community.

For the UK the *Imported Food Regulations 1984* provide general rules which are applied to imports from outside the EU. The regulations prohibit the importation of such food that is unfit for human consumption or is unsound or unwholesome. The authorities may examine, detain, sample and test any consignment where they

believe such action is appropriate.

Once imported into the UK produce is subject to the requirements of the Food Safety Act 1990. This covers a range of issues including labelling, additives, preservatives and composition of food.

In order to meet these regulations as well as their own customers' specifications, it is likely that importers will set high standards for preparation and packing conditions. In the case of prepacked vegetables such a code of practice will be stringent.

N.B. GATT is committed to basing all protective measures on scientific reasons for SPS (Sanitary and Phytosanitary Systems).

Packaging

A number of issues must be addressed when selecting packaging. Broadly, they can be grouped into questions of containment for the logistics of distribution; protection to ensure the produce arrives at the point of sale in the best possible condition; marketing to present the produce in a preferred style; and environmental impact relating to the handling of the used packaging.

The manual on the Packaging of Fresh Fruit and Vegetables ITC UNCTAD/GATT introduces overseas exporters to the packaging requirements of the European markets. In particular, it deals with the questions of containment, protection and marketing which have hitherto dominated the requirements of the trade.

There is now increasing pressure to create a more environmentally friendly means of handling packaging waste. Some EU governments, rather than wait for an EU wide directive, have already enacted legislation regarding packaging and packaging waste. Their common objectives include the minimisation of waste, re-use by re-cycling and safe disposal where no other use is possible.

Even when the Directive is adopted, experts should still pay attention to national requirements as these may exceed the EU regulations.

Germany, one of the most environmentally sensitive members of the Community, was the first country in the world to enact legislation affecting packaging, which was introduced progressively from 1991 to 1993. The distribution and processing industries have had to develop new systems for either re-using packaging or re-cycling the packing material. Imported products fall under the same legislation.

Some major EU countries and the EU Commission have shown sympathy with the German Ordinance and may well adopt its basic tenets.

The important points for exporters in the German *Ordinance on the Avoidance of Packaging Waste* are as follows:

- it affects all types of packaging
- imports are subject to the same laws as locally produced goods
- for imports the responsibility for disposal of the packaging waste rests with the importer
- packaging waste cannot be disposed of in public landfills or by incineration
- the obligation to take back packaging does not apply if the importer takes part in a disposal system.

Under the Ordinance an umbrella corporation - the *Duales System Deutschland* (DSD) was set up jointly by German trade and industry to finance and manage packaging waste collection and recycling. The DSD is funded by a levy per item bearing its stamp (the Green Dot) which guarantees that the packaging can be

reused or recycled. This Green Dot has rapidly gained acceptance throughout the trade and is recognised by the consumer. Third country exporters to Germany have had to ensure that their packaging fits into a recycling system or leaves no waste, otherwise it will not be accepted by German retailers. It is recommended that exporters should obtain the label for appropriate packaging through their importing partner.

The following general points apply to packaging materials in Germany:

Paper and cardboard - should be free of any substances which would make them unsuitable for the paper production process such as bitumen, wax, oil, adhesives, impregnating agents or coatings.

Wood and wooden pallets - only solid wood and untreated chip board without coatings, paint or lamination or similar is acceptable. No plastic material should be attached, nor metal parts that are more than 1 centimetre in diameter.

Foil/film - Only PE and PP foils without print, coating, adhesive and tape (excepting those which are of the same material as the foil) are acceptable. Bags should have no other material attached or be in any way contaminated.

Polyurethane foams and expanded polystyrene must be white, clean, without adhesives or smell and be separated into formed parts and loose chips. Foam containing CFC is not acceptable.

While the UK has yet to enact stringent legislation, France, Belgium and the Netherlands have all begun to adopt legislation for packaging waste. In France, the situation is similar to that in Germany with a "Point Vert" label administered through ECO-EMALLAGES with reciprocal arrangements with the German Green Dot. Belgium, however, is introducing a system of "Eco-taxes" which encourage the use of environmentally friendly products, i.e. those suitable for recycling or containing recycled materials. In the Netherlands goals have been set to reduce packaging waste. The government will enact legislation if the goals are not met.

An EU waste packaging directive was agreed in principle at the end of 1993 against objections from Germany, the Netherlands and Denmark that the targets for recovery and recycling were too lenient. Further debate was set to continue through 1994.

Recycling legislation has implications for exporters of fruit and vegetables. Firstly, purchases may dictate protective packaging which is easy to re-cycle, for example cartons rather than wooden crates. Secondly, where it is feasible, returnable packaging such as pallets will be encouraged. This clearly involves greater logistical problems for third country exporters who are further from the market than EU producers.

Impact on ACP and LDC's

Stricter control will be needed over pesticide usage and packaging materials and designs may have to be modified. The impact of the legislation will be to favour the larger, better organised and managed export operations who are fully supported by their national governments in the expensive process of negotiating with the EU and in challenging unscientific phytosanitary restraints to trade.





Appendix 2B: Southern African Development Community

[Historical development](#)

Introduction

The Southern African Development Community (SADC) is an organisation of eleven independent states of Southern Africa, namely: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, South Africa, Zambia and Zimbabwe.

SADC is a decentralised organisation with a small secretariat based in Gaborone, Botswana. Each member state is given a specific sector to coordinate through a Sector Coordinating Unit which is part of its government structure.

Table 2B-1 SADC basic economic indications

Country	Population (million)	GNP/capita (US\$, 1990)	GNP (US\$ billion)
Angola	10,0	609	7,4
Botswana	1,3	2040	1,6 (1989)
Lesotho	1,7	530	0,3 (1989)
Malawi	8,4	200	1,5 (1989)
Mozambique	15,4	80	1,1 (1989)
Namibia	1,4	1030	n/a
South Africa	40,3 (1994)	2530	117,5 (1993)
Swaziland	0,9	810	0,7 (1989)
Tanzania	25,6	110	2,8 (1989)
Zambia	7,5	420	4,8 (1989)
Zimbabwe	10,5 (1992)	640	n/a

Sources: SADC '94 Official Summit Brochure

SADC: Regional Relations and Cooperation Post Apartheid

SADC is funded through contributions from Member States, income from its enterprises and receipts from regional and non-regional resources. The Secretariat and Commissions are jointly funded by Member States on an equal basis. The SADC also receives income from its investments. Sector Coordinating Units are funded by the hosting Governments while specific projects are donor funded.

Historical development

In May 1979 Foreign Ministers of Frontline States met in Gaborone to discuss

economic cooperation. They agreed to convene a conference in Arusha (Tanzania) with donor Governments and International Development Institutions to discuss a regional programme of economic development in Southern Africa. In July 1979 the Arusha Conference provided these states with an opportunity to explain to potential international cooperating partners the main parameters of such cooperation and the policy assumptions on which the cooperation was being constructed. The conference also agreed that other majority ruled countries of Southern Africa should be invited to participate in the drawing up of the Lusaka Declaration on Southern African Development Coordination Conference.

The Southern African Development Coordination Conference (SADCC), was established on April 11 1980, when nine Heads of State or Government of majority ruled states of Southern Africa adopted the Lusaka Declaration - Southern Africa: Towards Economic Liberation. The founder Member States were Angola, Botswana, Lesotho, Malawi, Mozambique, Tanzania, Swaziland, Zambia and Zimbabwe. Namibia became the tenth member upon the attainment of its independence in 1990.

The now SADC, a descendant of SADCC, was established on 17th August 1992 when the ten Member States signed the Declaration, Treaty and Protocol in Windhoek, Namibia. The Treaty was ratified by Member States in September, 1993. The Declaration and Treaty effectively launched a scheme of economic integration. SADC graduated from an informal club (SADCC) - established by a legal organisation/community (with provisions for binding rules and regulations) in which Member States, through appropriate institutions of SADC, coordinate, rationalise and harmonise their overall macroeconomic and sector policies and strategies, programmes and projects in the areas of cooperation. South Africa became the eleventh member in August 1994 following the attainment of its independence earlier in the year.

From SADCC to SADC

The transformation of SADC from a loose organisational set up to an economic community was due to changed circumstances and reorientation of the original objectives which were:-

- the reduction of economic dependence, particularly, but not only, on the then apartheid ruled South Africa
- the forging of links to create a genuine and equitable regional integration
- the mobilisation of resources to promote the implementation of national, interstate and regional policies and,
- concerted action to secure international cooperation within the framework of the strategy for economic liberation.

One of the weaknesses of SADC was its inability to mobilise the regional business community and professional associations in the implementation of its programmes. Since April 1980 the organisation had been largely a mere forum of State bureaucrats and technocrats - pushing their countries projects for funding - rather than an instrument of popular participation in the economic development of the region.

The rationale for launching SADC lies in the following:-

- the continuing search for an organisational structure that would facilitate the translation of political independence into economic independence

- the continuing dependence on the export of a few raw materials
- the small size of Member States' economies and low incomes which make it difficult for them to individually attract and sustain the necessary investment for development and growth and restructuring at higher levels of efficiency and productivity
- the inadequate socio-economic infrastructure and the high per capita cost of providing this infrastructure on account of the small size of their economies.
- the political geography of Southern Africa makes the majority of the countries of the region landlocked, thereby necessitating their closer collaboration with coastal states and,
- the growing gap between African countries and middle - and high income countries. The findings of the 1967 United Nations/Economic Commission for Africa (UN/ECA) study on economic development prospects in Africa continue to show no sign of abating, or for that matter reducing. The study concluded that it would take at least 273 years for African countries, and 343 years to catch up with high income countries.

Experiences in African countries have shown that instead of reducing, the gap may have even widened

- 12 years' experience of regional cooperation under SADCC
- the political developments in South Africa towards majority rule
- the peace process underway in civil strife torn Angola and Mozambique
- the need to establish and maintain peace in the region in order to minimise the threat of conflict and to reduce the defence expenditure
- the re-emergence of multi-party politics in the region
- the re-introduction of market oriented economic systems aimed at restructuring heavily government controlled economies. (This is likely to stimulate foreign interest in the region and perhaps lead to investment) and,
- the world seems to be edging towards protectionism and isolationism as evidenced by the various and major trading blocs such as the North American Free Trade Agreement, the European Union, the Economic Community of West African States, etc.

Objectives

The specific objectives of SADC are to:-

- evolve common political values, systems and institutions
- promote and defend peace and security
- promote self-sustaining development on the basis of collective self-reliance and the interdependence of Member States
- achieve complementarity between national and regional strategies and

programmes

- promote and maximise productive employment and utilisation of resources of the region
- achieve sustainable utilisation of natural resources and effective protection of the environment and,
- strengthen and consolidate the long standing historical, social and cultural affinities and links among the peoples of the region.

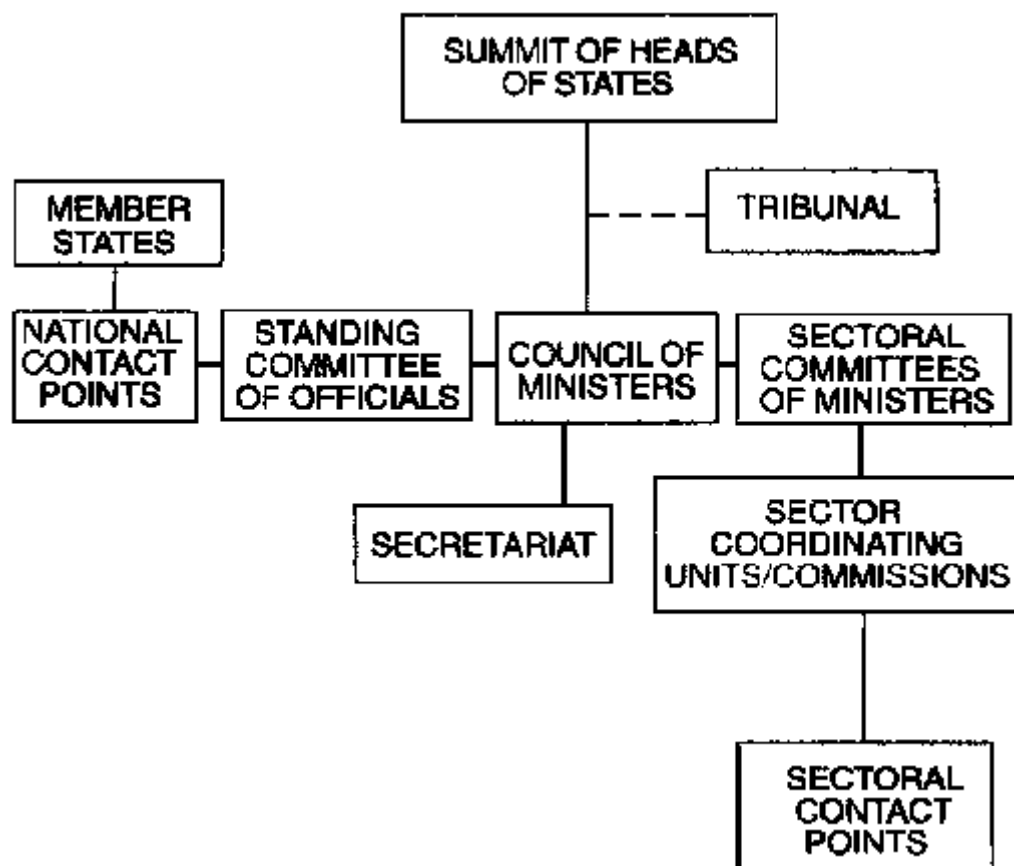
The summit of heads of state or government: The summit consists of heads of state or Government of all Member States and is the supreme policy making institution of the SADC. The summit elects a chairman and vice chairman of SADC from among its members for a 3 year period, on a rotational basis; however, the summit has retained Botswana as chairman since the inception of the then SADCC in 1980. It decides on the creation of commissions, other institutions, committees and organs as the need arises, and appoints the executive secretary and his deputy on the recommendation of the council of ministers. It meets once a year and, unless otherwise provided for in the SADC Treaty, its decisions are by consensus and are binding.

The council or ministers: The council consists of one minister from each member state, preferably a minister responsible for economic planning or finance. It meets at least once a year and is responsible to the summit for overall implementation, coordination and supervision of SADC's activities, such as approving programmes and projects for SADC, designating member states to coordinate activities in the various sectors, appointing its committees as necessary, directing, coordinating and supervising the operations of SADC institutions subordinate to it, and convening conferences and other meetings as appropriate. The chairman and vice chairman of the council are appointed by the member states holding the chairmanship and vice chairmanship of SADC, respectively. Decisions of the council are by consensus.

Organisational structure

The SADC structure is shown in figure 2B-1

Figure 2B-1 SADC organisational structure



Commission: Commissions are constituted to guide and coordinate cooperation and integration policies and programmes in designated sectoral areas. The composition, powers, functions, procedures and other matters related to each commission are prescribed by an appropriate protocol approved by the summit. Commissions work closely with the secretariat, but are responsible and report to the council. They are jointly funded by member states on an equal basis. So far, there are only two commissions; the Southern African Transport and Communication Commission (SATCC) based in Mozambique and the Southern African Centre for Cooperation in Agricultural Research (SACCAR) based in Botswana.

The standing committee of officials: The standing committee consists of senior civil servants from each member state, preferably from the Ministry responsible for economic planning or finance. It is a technical advisory committee to the council and is responsible and reports to it. It meets at least once a year and its decisions are by consensus. The chairman and vice chairman of the standing committee are appointed by the member states holding the chairmanship and vice chairmanship of the council, respectively.

The secretariat: The secretariat is the principal executive institution of SADC and is responsible for strategic planning and management of SADC programmes; implementation of decisions of the summit and council; organisation and management of SADC meetings; financial and general administration; representation and promotion of SADC; and coordination and harmonisation of the policies and strategies of member states. The Secretariat is headed by the executive secretary appointed by the summit and responsible to the council. The executive secretary is appointed for four years and may be eligible for appointment for another period not exceeding four years.

The tribunal: The tribunal is constituted to ensure adherence to and proper interpretation of the provisions of the SADC Treaty and subsidiary instruments and to adjudicate upon such disputes as may be referred to it. The composition, powers, functions, procedures and other related matters governing the tribunal are prescribed in a protocol adopted by the summit. Its members are appointed for a

specified period and its decisions are final and binding.

Cooperation with the international community

SADC seeks cooperation from the international community in the implementation of its regional programme towards the achievement of its priorities and objectives. To this end, SADC holds an annual consultative conference with cooperating Governments and international agencies. At the conference, cooperating partners are updated on progress in regional cooperation, projects are presented for financial support, and problems and bottlenecks are ironed out. SADC has benefitted considerably from its decisions to develop an open and friendly dialogue with the international community. The United Nations General Assembly granted international recognition of the organisation in its Resolution 37/248 adopted on 21 December 1982.

The SADC programme of action

The programme of action comprises of programmes and projects in several sectors. Once a programme is prepared and approved, the regional projects are, where necessary, presented to SADC's cooperating partners at the annual consultative conference. If a cooperating partner expresses interest in a project, it becomes the primary responsibility of the country or countries directly involved and assisted by the sector coordinator, to negotiate with the donor and implement the project. The SADC commissions and committees help to define regional priorities, assist in mobilising resources, and to maximise the regional impact of projects.

Industry and trade

The Industry and trade sector is coordinated by Tanzania. It promotes viable regional industries, based on domestic and regional raw materials, and with access to the regional market. The sector has also identified a number of specific macroeconomic policies for consideration by national governments which aim to promote increased production and investment, improve efficiency, and boost intra-regional trade. The main focus of SADC policy is to develop existing industrial capacity and, at the same time, to fully utilise the local resources.

Large scale projects considered include fertiliser plants, iron and steel mills and manufacturing industries. Emphasis is also being placed on creating an enabling environment for industrial development. Technical studies have sought to find ways of removing barriers to investment such as exchange controls, bureaucratic red tape and the differing investment policies and codes of the member states.

On the trade side, SADC is in the process of developing a programme. Studies are being carried out to look at trade flows within the region and how intra-trade can be facilitated. Intra-regional trade currently accounts for a mere 5 percent of total trade in the region. The sector aims to address the fundamental areas of institutional structures, which commodities are needed, which preferences can be implemented and at what levels. Table 2B-2 shows intra - regional trade.

Table 2B-2 SADC: Intra-regional trade

Country	Imports		Exports	
	1985	1988	1985	1988
Botswana (US\$ million)	36,6	81,7	19,5	-
Lesotho ('000 Maloti)	2,1	n/a	n/a	1.3
Malawi (US\$ million)	23,4	39,2	26,3	30,5
Mozambique (US\$'000)	4,2	31,6	0,2	1,1
Swaziland ('000 Emalangeni)	n/a	5,8	n/a	32,1

Zambia (US\$ million)	31,4	72,3	n/a	n/a
Zimbabwe (US\$ million)	49,3	101,9	112,2	203,7

Source: SADC: Regional Relations and Cooperation Post - Apartheid

Transport and communications

The sector is coordinated by Mozambique under the auspices of the Southern Africa Transport and Communication Commission (SATCC). It has been focusing on the rehabilitation and development of the regional transport and communications infrastructure in the region, acting as a broker for investment as well as coordinating programmes of action. The unit has been mobilising funds for investment in the sub-sectors of road and transport, railways, civil aviation, ports and shipping, postal services, meteorological services and telecommunications. As of August 1994, SATCC had 220 projects at an estimated cost of US\$7 billion of which US\$3 billion had been secured.

SATCC is also at the forefront of encouraging programmes dealing with restructuring and commercialisation of the sector through seminars. Protocol development is expected to commence in the last quarter of 1994.

Food, Agriculture and Natural Resources (FANR)

A new strategy for FANR was adopted in 1993 and is made up of three major cross cutting programmes, namely:- food security, agricultural development and natural resources development. Responsibility for overall coordination of the sector is based in Zimbabwe. Implementation of sector specific programmes is the responsibility of the eight sector coordinating units which are grouped together under the FANR programme.

Food security

This sector is coordinated by Zimbabwe and aims to increase regional food availability and to enhance the capacity of the people in the SADC region to acquire enough food for a healthy diet. The sector's activities are divided into four interlinked groups, i.e.

- the generation and exchange of information: to this end the sector operates regional early warning and remote sensing systems, nutritional surveillance, and migrant pests control through regional information projects;
- food policy analysis and research
- promotion of improved food availability and,
- promotion of improved food access.

Agriculture research

The sector is coordinated by Botswana through the Southern African Centre for Cooperation in Agriculture Research (SACCAR). SACCAR is a commission established in 1985 to coordinate regional efforts in the field of agricultural research. The sector has undertaken a variety of projects, including improving sorghum and millet crops, legumes and land water management. The programme aims to:-

- strengthen national agricultural research systems
- promote the interchange and utilisation of scientific and technical information

- generate new technologies needed by farmers to raise the productivity of food and non-food crops, livestock, fisheries and forestry
- promote dissemination of available technology
- promote studies into common problems and,
- provide regional support services.

Projects underway include studies to improve:-

- production methods in sorghum and millet at Matopos in Zimbabwe
- groundnuts at the Chidesa Research Station in Malawi
- cowpeas in Mozambique
- land and water management at Sebele College in Botswana and,
- regional plant genetic resources at a centre in Zambia.

The sorghum and millet project has trained 100 peoples to degree level, several thousand technicians and several improved varieties of the crops have been released to farmers.

Livestock production and animal disease control

The sector is coordinated by Botswana and is working on projects in the areas of animal disease control, animal production and drought management. One of the main areas of regional cooperation is the Foot and Mouth Disease Project under which researchers around the region gather information on the disease, its economic impact and how it is kept in check in the member states. Since March 1994 the Foot and Mouth Projects in Angola, Malawi, Namibia, Zambia and Zimbabwe are being funded by the EU.

A second regional cooperation project is based in Malawi where researchers are working on a vaccine for East Coast Fever. A coordination centre has also been established in Zimbabwe to distribute the vaccine to end users.

A tsetse control project conducted by SADC has been one of the most successful projects in Africa. The project in Zimbabwe is developing simple, innovative methods which are cheap and easy on the environment.

Other projects in the pipeline include:- a rabies control programme and a regional tsetse control project based in Zambia which will provide manpower training for persons working in the field.

Marine fisheries and resources

This sector is coordinated by Namibia and generally aims at the sustainable exploitation of the marine fisheries resources. The sector has identified regional needs in training and institutional capacity building, marine research and resource assessment, surveillance and control, fish handling, processing and quality control, and distribution and marketing. The objectives of specific regional marine fisheries programmes aim at maximising sustainable yields, securing fish supply as food and significantly increasing the industry's contribution to the GNP.

Inland fisheries, forestry and wildlife

The sector is coordinated by Malawi and aims to develop the region's vast resources of flora and fauna. A total of five projects have been fully implemented of which 40 approved projects are in the pipeline at an estimated cost of US\$260 million.

Environment and land management

The sector is coordinated by Lesotho and its main focus of activity has been studies in water resources management and environment and land management. The sector has been successful in involving communities at grass roots level in environmental awareness. Extensive work has been done on the sustainable use of water resources and on shared water systems. The sector is also developing projects and regional programmes of action to deal with desertification, conservation and sustainable utilisation of natural resources.

Mining

The mining sector is coordinated by Zambia and, since its inception in 1984, has successfully collected geological and mining data on which investment decisions are being based. Completed projects undertaken by the sector include a detailed feasibility study on the exploitation of the Mulanje Bauxite deposit in Malawi, and the market survey of soda ash which contributed to the finalisation of the investment decision which has seen the opening of the soda ash Botswana project.

The sector has been considerably successful in the development of the small scale mining industry through a study on the Investment Climate in Small and Medium Scale Mining which has resulted in most member states reviewing their legislation in order to create an enabling environment.

The total mining sector programme is made up of 30 projects which will cost US\$28 million.

Energy

The sector, coordinated by Angola, has several sub-sectors covering electricity, petroleum, oil and gas, wood fuel, new and renewable sources of energy, coal, and energy conservation. The electricity sub-sector, the core of the sector's programme, has successfully interconnected electricity supply among Botswana, Zimbabwe and Zambia, and is now concentrating on connecting Southern Angola and Northern Namibia. Namibia is also importing electricity from Zambia to service the Caprivi Strip. The rehabilitation of Cabora Bassa Power Station is underway. Tanzania and Malawi have an ongoing project to share power along the borders. The ultimate aim is to have an integrated regional power grid with all the member states interconnected. The Kafue Gorge Station in Zambia, which was destroyed by fire, has also been rehabilitated.

Other areas being worked on in the electricity sub-sector include: rural electrification, specialists training in electrical power, computerisation of operational centres in each country and maintenance training for power stations.

The petroleum, oil and gas sub-sector has seen limited activity; the only major project undertaken is the SADC Joint Petroleum Exploration Programme intended to improve member states geological data bases and to evaluate individual countries' petroleum potential.

In the wood fuel sub-sector, the main focus has been on studies to assess its impact on the environment.

In the new and renewable sources of energy sub-sector, Botswana is the only country which has made extensive use of solar heating. The viability of utilising wind power and solar photovoltaic power is also being looked into.

The coal sub-sector has focused on manpower development and training. A Coal Distribution Yard and Information Centre has been set up in Botswana and its findings will be applied to other member states.

Human resources development

The sector, coordinated by Swaziland, is a vital part of the SADC Programme of Action as all sectors depend on trained personnel to carry out projects and activities. It focuses on providing leadership training and developing special courses for specific groups in the other sectors. The sector has produced a Directory of Regional Training Institutions which has been updated annually since 1987. The sector has been running a language training programme to teach English and Portuguese, the official languages of SADC.

Culture and information

The sector, established in 1991 and coordinated by Mozambique, aims to promote a greater awareness of the region's cultural heritage.

Its activities include:-

- organising general support to the coordinating unit through discussions with donors.
- the establishment of a data bank for cultural organisations, languages and other related items.
- the SADC Arts and Festival to run from 1995.
- tourism.

The sector, coordinated by Lesotho, is working towards the completion of its long term development strategy which ultimately will see a fully integrated tourism industry in Southern Africa. The Tourism Development Programme is divided into four components, namely:-

- Tourism product development
- Tourism research and marketing
- Tourism services and
- Human resources development and training.

Advantages/strengths

The countries of Southern Africa are bound together by cultural and political affinities which have in the past enabled them to intervene to solve internal conflicts in individual countries. The signing of the SADC Treaty gave the organisation a legal status that its predecessor did not have, giving it some amount of leverage in its negotiations with cooperating governments and international donor institutions,

Disadvantages/constraints

Problems facing integration of key sectors and services in the region stem from the fact that member states depend very heavily on the exports of primary commodities to and imports of industrial products from, developed market economies. Other problems include:-

- the lack of appropriate technology for the production of mass consumer goods
- the paucity of technical expertise and trained personnel in management and entrepreneurial skills
- different and often inadequate provision of staff and other resources for the coordination and management of the regional programme, leading to inequitable distribution of responsibilities and obligations to the organisation
- the economic disparities and inequities among Member States, particularly with respect to South Africa

- lack of policy measures focused on the removal of constraints such as lack of information, supply and demand divergence in national economies; tariff and non-tariff barriers
- low growth of trade between Member States
- heavy external debt
- the imposition of structural adjustment programmes from developed countries
- lack of banking and other financial facilities
- relative or sometimes absolute neglect of rural African populations leading to low levels of income
- conflicting obligations of some Member States stemming from their membership of the PTA and the Southern African Customs Union
- different traditions, management and administration procedures and
- different standards, qualifications and performance criteria for staff involved in the management of regional programmes
- the various sectors in the decentralised structures have no clear line of authority and accountability in the implementation of regional programmes.

The future

SADC has a declared objective of creating a genuine and equitable integration among its member states. Governments should be prepared to give up their national sovereignty if economic integration is to succeed. Involvement of the people is essential and will entail free movement of people, capital and labour without need for visas or even passports.

Various trading blocs have been or are being established throughout the world and Southern Africa cannot be the exception. SADC has a lot to learn from similar organisations to ensure success.

The future of SADC also lies with the findings and recommendations of the ministerial committee established to look into the harmonisation of relations between itself and the PTA. Possible duplication of resources in their activities is one of the arguments in favour of a merger. While recommendations of the ministerial committee have not yet been made public, it is reliably understood that one of the six options under consideration is the splitting up of the PTA into north and south, with the latter equating to SADC.

Sectoral coordinating Units are likely to be converted to commissions such as SATCC and SACCAR.





Appendix 2C: The Preferential Trade Area Of Eastern And Southern Africa

[Institutions of the PTA](#)

Introduction

The Treaty establishing the Preferential Trade Area for Eastern and Southern Africa was signed in December 1981, as a first step towards higher forms of regional economic cooperation and integration to bring about sustainable growth and development of Member States. The Treaty came into force in September 1992 following ratification by nine Member States.

The PTA is primarily funded by subscriptions paid by Member States. Subscriptions were initially based on the following formula: country's GDP, income per capita and value of intraregional exports. Weights of 30%, 40% and 30% were assigned to each parameter respectively. The formula was revised in 1989 to 30%, 15% and 42,5% respectively, and included a new parameter i.e. intraregional imports weighted at 7.5%.

It should be noted that the formula is currently under review in response to complaints that it places a heavier burden on a few states.

Historical background

Formation of the Preferential Trade Area (PTA): Following the recommendation of the Lagos Plan of Action to expand intraAfrica trade, the United Nations Economic Commission for Africa (ECA), set up five subregional Multinational Programming and Operational Centres (MULPOC's). These centers were for Eastern and Southern Africa, West Africa, Central Africa and the Great Lakes Community comprising Burundi, Rwanda and Zaire. It was recommended that preferential trade areas with similar arrangements be established within each MULPOC area not later than December 1984.

The MULPOC for Eastern and Southern Africa, based in Lusaka, Zambia, successfully negotiated a treaty for the establishment of the Preferential Trade Area for Eastern and Southern Africa in 1981.

Membership and location: The PTA Treaty was signed on 21 September 1982 following ratification by more than seven signatory states as provided for in Article 50. Today, twenty-two states are members of the PTA: Angola, Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The Republic of South Africa is expected to join in the near future. Botswana is not yet a member. The PTA is headquartered in Lusaka, Zambia.

Objectives and funding of the organisation

The objectives of the PTA are summarised as follows:-

- i) to promote cooperation and integration covering all areas of economic activity, particularly trade and customs, industry, transport and communications, agriculture and monetary affairs
- ii) to raise the standards of living of the people of the region by fostering closer relations among Member States
- iii) to create a common market by the year 2000 in order to allow the free movement of goods, capital and labour within the subregion and
- iv) to contribute to the progress and development of all other African countries.

Towards attainment of these objectives, PTA strategy includes:

- reduction and elimination of trade barriers on selected goods traded within the area
- cooperation in customs through simplification and harmonisation of customs procedures and regulations
- introduction of rules of origin to determine which goods will receive preferential treatment
- granting of transit rights to all transporters when coming from or entering other Member States or third countries
- clearing and payments arrangements to promote trade in goods and services within the subregion
- cooperation to develop coordinated and complementary policies and systems in transport and communications
- cooperation in the field of industrial development in order to promote self sustained industrialisation within the PTA, to expand trade in industrial products and to bring about structural transformation of industry for the purpose of fostering the overall social and economic development of Member States
- cooperation in the area of agricultural development so as to raise production and supply of food to coordinate the export of agricultural commodities to harmonise programmes in agricultural production develop land and water resources share agricultural services, technology and marketing and stabilize the prices of agricultural commodities in the subregion
- simplification and harmonisation of trade documents and procedures in the area and
- interventions to assist the least industrialised Member States e.g. through special consideration in allocating multinational industries. Thus, the PTA has a broad and challenging mandate.

Organisational structure

The authority: The Authority consisting of heads of state and government is the supreme policy organ of the PTA. The decisions and directions of the Authority are

by consensus and are based on recommendations of the Council of Ministers.

The Authority is empowered to decide on the accession of members under Articles 46 and 50 of the Treaty, appoint the Secretary General of the PTA, as well as the judges of the Tribunal. It also decides on the accession of bodies, institutions or enterprises to membership of the Eastern and Southern African Trade and Development Bank.

Council of ministers: Ministers, preferably of trade and industry and designated by Member states, sit on the council. The Council is responsible for ensuring that the PTA functions in accordance with the Treaty. It keeps PTA's activities under constant review in order to advise the Authority on matters of policy and gives directions to all the other subordinated institutions of the PTA. Decisions of the Council are taken on the recommendation of the Intergovernmental Commission of Experts.

Intergovernmental commission of experts (ICE): Member State's experts in customs and trade, industry, agriculture, transport and communications, administrative and budgetary affairs and legal and financial matters sit on the Commission. The ICE'S main function is to oversee the implementation of the provisions of the Treaty. The Commission also considers reports from all the technical committees of the PTA. Its decisions are recommendations to the Council of Ministers.

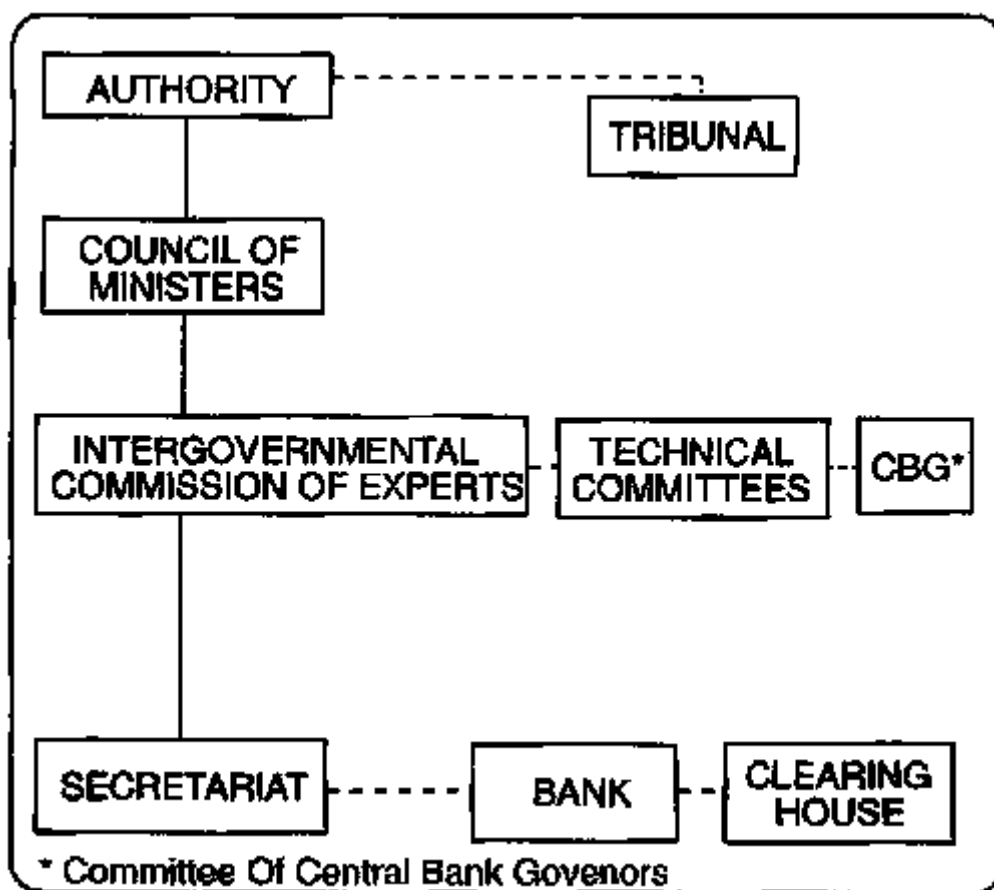
Technical committees and subcommittees: There are technical committees for each economic sector forming the activities of the PTA. The technical committees have authority to appoint subcommittees which report to them. Current technical committees of the PTA are the Committee on Industrial Development, Committee on Agricultural Cooperation, the Transport and Communications Committee, the Committee on Botswana, Lesotho and Swaziland, the Committee of Legal Experts and the Administrative, Finance and Budgetary Committee. The decisions of the technical committees are recommendations to the Commission and are taken by simple majority.

The PTA tribunal: The Tribunal is the judicial organ of the PTA and it ensures proper interpretation and application of the provision of the Treaty. It adjudicates any disputes that may arise among Member States relating to the interpretation and application of the Treaty. The decisions of Tribunal are binding and final.

The Committee of Central Bank Governors: The Committee of Central Bank Governors determines the maximum debit and credit limits in relation to the Clearing House and the daily interest rate for outstanding debit balance. The Committee also deals with issues concerning monetary and financial cooperation.

The Secretariat: The head of the Secretariat is the Secretary General of the PTA. The Secretariat administers, undertakes research and implements the decisions of the Authority and the Council of Ministers. It assists all institutions of the PTA in carrying out their functions. There are seven divisions in the Secretariat, namely, Administration, Trade and Customs, industry, Energy and the Environment, Transport and Communications, Agriculture, Fisheries and Forestry, Monetary Affairs and Legal Affairs. Each division is headed by a Director reporting directly to the Secretary General.

Figure 2C-1 Organisational chart of the Preferential Trade Area



Cooperation with donors and intergovernmental organisations

During 1985-1992, development partners have contributed US\$1.2 billion to the PTA towards implementation of its programmes and projects. Cooperating partners are listed as follows:

- Bilateral donors: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom and the United States of America.
- Multilateral Development Financing Institutions: ADB, Commonwealth Secretariat, EC, United Nations agencies such as ECA, FAO, IFAD, ITC, UNCTC, UNDP, UNIDO, UNIFEM, WHO and the World Bank.

The programme of action of the PTA

The PTA programme of action covers trade liberalisation, clearing and payments procedures, cooperation in transport and communications, industry, agricultural development and monetary and financial cooperation.

Achievements in trade liberalisation and promotion since 1982 include:

- a 60 percent average tariff reduction on goods originating in the subregion. It is envisaged that interregional tariffs will be progressively eliminated by the year 2000 as follows: 1994 70%, 1996 80%, 1998 90% and 2000 100%.
- abolition of the Common List which specified the products in each member state that could be traded at reduced tariff rates, resulting in preferential exchange of all commodities produced within the subregion
- the Protocol on the Rules of Origin has been streamlined to facilitate intraregional trade and investment. The majority local equity and local

management clause has been deleted. Value added criteria is being applied with a commodity said to originate from a Member State if its value added is at least 45 percent.

- establishment of a computer based subregional trade information network (TINET) with focal points in each Member State, providing information on the enterprises in each country, countries' imports and exports and tenders.

Transport and communications

Achievements in transport and communications have been:

- rehabilitation and upgrading of interstate roads, railways, ports and telecommunications links. About 50 percent of the network has been restored
- the PTA Third Party Motor Vehicle Insurance Scheme (the Yellow Card) implemented in July 1987 has facilitated the movement of vehicles within the subregion.
- road customs transit documents have been simplified and harmonised with the introduction of a single Road Customs Transit Declaration Document.

Monetary and financial cooperation

Achievements in monetary and financial cooperation have been:

- establishment of the Clearing House in February 1984
- establishment of the PTA Trade and Development Bank for Eastern and Southern Africa (PTA Bank) in November 1985. The Bank provides finance for multinational development projects and financial resources to promote intraregional trade
- introduction of PTA travellers' checks, UAPTA, in August 1988 enabling Member States' citizens to travel within the region without having to use foreign currency. The UAPTA is equivalent to 1 Special Drawing Right (SDR) of the International Monetary Fund and,
- the launching of the PTA Monetary and Financial Harmonisation Programme in November 1990 with the eventual goal of establishing a monetary union to facilitate the economic integration process.

Institutions of the PTA

The Clearing House: The PTA Clearing House was set up in 1984 under the Reserve Bank of Zimbabwe. In January 1992 the Clearing House was formally established under its own charter with its own secretariat, headquartered in Harare, and run by an executive secretary.

The objective of the Clearing House is to promote cooperation in the settlement of payments for intraPTA trade. The Clearing House operates a payments scheme which allows for settlement of day-to-day payments in member state's currencies. Each member state has an account with the Federal Reserve Bank of New York through which just the net debits on trading are settled in hard currency. Settlement of accounts is done every 75 days beginning 15 March to 15 November each year.

The Eastern and Southern African Trade and Development Bank: Based in

Bujumbura, Burundi since 1985, the PTA Bank is currently headquartered in Nairobi, Kenya following political developments in Rwanda and Burundi. The Bank provides financial and technical assistance to promote Member States's economic growth and development.

The Bank has disbursed UAPTA 58 million since 1990 to finance industrial projects and trade. Most of the money, UAPTA 41 million, was channelled to the trade sector.

The PTA reinsurance company (ZEPRE): Established in September 1992, ZEPRE is headquartered in Nairobi, Kenya. Its function is to reduce the outflow of foreign exchange in the form of payments to overseas reinsurance companies by providing reinsurance services for companies within the PTA. Insurance companies have been asked to cede 10 percent of their business to ZEPRE.

PTA Association of Commercial Banks (BAPTA): BAPTA was formed in November 1987 by commercial and merchant banks operating in the PTA subregion. It facilitates the operations of the Clearing House by establishing correspondent relationships among commercial and merchant banks. Additional functions include harmonisation of banking practices; provision of ancillary services and credit facilities for various economic agents and provision of a permanent forum to discuss issues of common concern among members. The secretariat is housed in the secretariat of the Clearing House.

Eastern and Southern Business Organisation (ESABO): The charter establishing ESABO was signed in Maputo, Mozambique, at the end of August, 1994. ESABO replaces the PTA Federation of Chambers of Commerce and Industry. Its main function is to promote cross border cooperation among national chambers of commerce and industry.

Federation of National Association of Women in Business: The Federation was formed serves as a mechanism for channelling resources to female entrepreneurs in the PTA and provides a forum for discussion for businesswomen.

The Leather and Leather Products Institute (LLPI): The LLPI was established in Addis Ababa in November 1993 Its main objective is to upgrade member states' leather sectors through training, research and development, consultancy services and information dissemination.

Advantages of the PTA are:

- The PTA is the largest subregional economic cooperation arrangement in the African continent. The total population in the region is about 200 million with an effective demand of at least 100 million.
- The resources of the sub - region includes an area of sixty percent covered by rivers and lakes which could be jointly exploited to develop irrigation, fisheries, water transport and hydropower; gold, diamonds, platinum, chrome, manganese, phosphate, iron ore, coal, 170 billion cubic meters of natural gas, over 200 billion tonnes of petroleum; an estimated hydroelectric capacity in excess of 700 billion kilowatts per annum; cobalt, copper, nickel and uranium. Less than 9 percent of ariable land is currently being cultivated. There is, therefore, a large potential for regional integration.

Disadvantages of the PTA are:

- High transport and transit costs; border tolls are high but are revenue for countries;
- Lack of complementarity in production, trade and consumption in the

PTA retards trade and economic integration

- The subregion includes 14 countries namely, Angola, Burundi, Comoros, Djibouti, Ethiopia, Lesotho, Malawi, Mozambique, Rwanda, Somalia, Sudan, Tanzania, Uganda and Zambia that are classified by the UN as least developed countries. Thus, significant disparities in economic activities and development militate against regional integration
- The more economically advanced Member States have tended to maximize their exports **at** the expense of economically weaker countries.

From PTA to COMESA

Based on past experiences and member states' determination to move forward with cooperation to bring about sustainable growth and development, strategy for the 1990s is to bring about full market integration beginning with the transformation of the PTA into the Common Market for Eastern and Southern African States (COMESA).

COMESA is based on the concept of multispeed development by which two or more member states can agree to accelerate the implementation of specific provisions of the Treaty while allowing others to join in later on a reciprocal basis. Whereas the PTA emphasized decision by consensus, and as such, programs were pegged on the slowest moving Member States, under COMESA a two thirds majority will prevail where consensus cannot be reached. The COMESA Treaty provides for both enforceability and sanctions. Member states are obligated to abide by common decisions. Sanctions may be imposed against any member state that "deliberately and persistently" fails to comply with agreed decisions. Errant states can be suspended and, eventually, expelled from membership to COMESA.

Organisational structure

COMESA is expected to retain the main structures of the PTA. The Tribunal will be replaced by the Court of Justice and a Consultative Committee will be established.

COMESA embodies the following principal elements which are not contained in the PTA:

- a full free trade area involving trade liberalisation under which there is free movement of goods and services produced within the common market and the removal of all nontariff barriers
- a customs union involving zero tariff on all products originating in the common market, and the adoption of a common external tariff on imports from nonCOMESA countries
- free movement of capital and finance and a common investment procedure so as to create a more favourable investment climate for foreign direct investment, crossborder investment and domestic investment
- a payments union and eventual establishment of a COMESA Monetary Union and
- free movement of persons, common visa arrangements, including the right of establishing and eventually, the right of settlement.

In addition, COMESA is designed specifically to facilitate the business community to take maximum advantages of regional integration. The role of member state Governments will be to create an enabling environment for business to invest and

produce more efficiently.

The future

COMESA will replace the PTA when the Treaty is ratified by at least 11 member states. Whilst most PTA members have signed the treaty at a meeting in Malawi, in December 1994, not all countries ratified it. One of these countries was, significantly, Zimbabwe, which enjoys one of the highest inter PTA exports. Zimbabwe would not ratify the formation until, the new COMESA's proposed relationship with SADC had been funded.

The following mechanisms to promote intraregional integration will be put in place: a stock exchange to bring about a capital market in the region an equity fund subscribed by western institutional investors to facilitate investment in the region a revolving fund for supporting women in business with a targeted capitalisation of US\$360 million a US\$130 million reserve fund under the PTA Bank to support the operations of the Clearing House. It is also envisaged that the UAPTA will be convertible in European currency markets and in South Africa by 1997.

Closer cooperation between PTA and other intergovernmental organisations in the Eastern and Southern African region will be pursued in order to avoid duplication of activities and waste of scarce resources. In August 1994 the issues were discussed by heads of states and Government at the SADC Summit in Lusaka which recommended that a Consultative Committee of Council of Ministers of PTA and SADC be set up to formulate guidelines and procedures to harmonise, coordinate and rationalise the activities of the PTA and SADC.

Table 2C-1 GDP, 1980 prices* US\$ bn

	1982	1983	1984	1985	1986	1987	1988	1989	1990
1	5077	5291	6170	6106	6868	7645	8744	8890	9473
2	1 012	1 083	1 082	1 208	1 255	1 306	1352	1 372	1385
3	154	160	167	161	166	170	172	172	174
4	301	301	314	316	322	334	337	334	338
5	4215	4428	4361	4087	4370	4802	4919	4975	4891
6	7515	7570	7807	8199	8788	9309	9870	10320	10844
7	385	363	391	403	400	429	482	520	558
8	1 202	1 247	1 314	1 402	1 407	1 441	1 478	1 552	1622
9	1 125	1 129	1 182	1 265	1 365	1 484	1 585	1 655	1 774
10	2308	2045	2000	1 792	1 827	1 900	1 978	2089	2125
11	1 278	1355	1 297	1354	1 428	1 420	1 427	1 393	1359
12	751	682	705	762	789	829	823	823	801
13	7776	7937	7539	7066	7753	7841	7692	8261	7779
14	585	580	603	689	715	705	768	799	816
15	5074	5050	5280	5300	5548	5767	6064	6331	6597
16	2072	2270	2077	2039	1 864	1 984	2127	2267	2396
17	4011	3925	3884	3954	3961	4084	4311	4321	4348
18	6148	6282	6162	6590	6765	6695	7314	7719	8408
	51 025	51 698	52335	52693	55691	58145	61 443	63793	65688

* 1-18 lists countries in alphabetical order e.g.

1.	Angola
----	--------

2.	Burundi
3.	Comoros
4.	Djibouti
5.	Ethiopia
6.	Kenya
7.	Lesotho
8.	Malawi
9.	Mauritius
10.	Mozambique
11.	Rwanda
12.	Somalia
13.	Sudan
14.	Swaziland
15.	Tanzania
16.	Uganda
17.	Zambia
18.	Zimbabwe

Eritrea, Madagascar, Namibia and Seychelles were not yet members.
Source: PTA Development Report: A Decade of Economic Integration
1982 -1992.

Table 2C-2 Intra-regional trade by country 1985-92* (US\$m)

	1985	1986	1987	1988	1989	1990	1991	1992
1	7.70	2.80	9.20	5.20	5.48	5.79	7.30	10.41
2	41.53	36.93	28.01	33.71	28.42	25.04	30.79	41.08
3	3.99	4.64	4.56	2.89	3.90	4.55	5.05	5.49
4	30.57	34.61	37.45	38.36	43.35	44.22	48.25	51.43
5	29.77	37.88	39.74	36.48	36.12	35.42	39.08	43.15
6	218.60	273.34	278.42	290.47	273.87	294.06	320.52	318.67
7	0.30	0.30	3.40	1.70	2.00	2.34	2.56	2.47
8	4.54	8.14	18.60	8.69	20.02	95.30	104.75	114.89
9	43.47	39.11	46.87	81.12	59.77	62.43	71.13	92.38
10	12.21	13.48	23.25	15.44	21.16	44.19	49.81	55.59
11	24.86	53.43	73.10	69.71	76.94	80.09	98.91	87.61
12	0.80	0.70	1.30	0.60	1.60	1.40	1.51	4.20
13	43.35	55.35	45.77	45.68	41.51	43.16	47.91	50.72
14	8.41	2.70	3.40	2.56	3.26	5.02	5.46	6.45
15	8.31	17.83	26.87	28.94	29.57	34.28	37.79	37.07
16	36.88	43.97	35.96	36.44	31.70	35.85	39.31	39.94
17	7.07	5.66	13.52	20.21	28.19	29.31	32.39	34.14
18	40.55	32.34	41.30	56.27	48.07	52.42	59.36	97.05
19	90.50	110.98	87.19	97.41	88.57	92.86	102.22	112.46
20	86.73	59.30	65.81	122.28	145.68	177.69	200.46	199.14
21	110.48	110.75	158.68	231.76	231.38	228.39	249.76	246.90
	850.62	944.24	1043.10	1225.92	1220.54	1402.80	1554.32	1651.24

Excludes Eritrea.

Source: Clearing House Annual Report 1993

1.	Angola
2.	Burundi
3.	Comoros
4.	Djibouti
5.	Ethiopia
6.	Kenya
7.	Lesotho
8.	Madagascar
9.	Malawi
10.	Mauritius
11.	Mozambique
12.	Namibia
13.	Rwanda
14.	Seychelles
15.	Somalia
16.	Sudan
17.	Swaziland
18.	Tanzania
19.	Uganda
20.	Zambia
21.	Zimbabwe

Table 2C-3 Clearing house transactions (UAPTA million)

	Total value	Annual % change	Net settlement foreign currency % of total
1984	74.6		74.6
1985	98.1	+31.5	85.7
1986	118.1	+37.2	51.7
1987	175.8	+48.0	54.8
1988	283.1	+61.0	50.1
1989	441.0	+55.8	46.9
1990	389.0	-11.8	42.3
1991	348.0	-15.2	33.7
1992	272.4	-21.8	31.1
1993	197.8	-27.4	22.0

Source: Clearing House Annual Report.





Chapter 3: The Cultural Environment

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Social and cultural aspects of a society form its very nature. As "culture" is the essence of a society, this chapter will concentrate on a discussion of it only.

Of all the so called "environmental uncontrollables", culture, or at least the study of it, is one of the most difficult to comprehend, take account of and harness to advantage. This is particularly so when the product or service is "culture bound". Such products and services include those which are generally indigenous by nature and/or of relatively small value and very common. This is particularly true of foodstuffs. Sadza in Zimbabwe, a staple food made from maize meal, would not go down well in Beverley Hills, California. Neither would Middle Eastern sheeps eyes menus. Products of a more technical nature, like computers, on the other hand, have a universal appeal.

However there is plenty of evidence to suggest that, with shrinking communications and with more people than ever travelling, even the most culture bound product or service can, and is, finding a world market niche. So even the infamous Veldschoen footwear of the South African pioneers has found its way into most corners of the world.

Chapter Objectives

The objectives of this chapter are:-

- To describe what is meant by "culture" and the numerous ways which have been devised to study it
- To give an understanding of how "culture" effects global marketing planning
- To show why the study of "culture" is important to marketers.

Structure Of The Chapter

The chapter begins by defining culture and its constituent elements. The chapter then goes on to describe the various approaches to the study of culture and

culminates with a study conducted by Hofstede which is one man's way of looking at culture's consequences. The chapter emphasizes the need to study culture carefully as it can be a major source of failure in global marketing, if not taken into account.

What is culture

Much has been written on the subject of culture and its consequences. Whilst on the surface most countries of the world demonstrate cultural similarities, there are many differences, hidden below the surface. One can talk about "the West", but Italians and English, both belonging to the so called "West", are very different in outlook when one looks below the surface. The task of the global marketer is to find the similarities and differences in culture and account for these in designing and developing marketing plans. Failure to do so can be disastrous.

Terpstra⁹ (1987) has defined culture as follows:

"The integrated sum total of learned behavioral traits that are manifest and shared by members of society"

Culture, therefore, according to this definition, is not transmitted genealogically. It is not, also innate, but learned. Facets of culture are interrelated and it is shared by members of a group who define the boundaries. Often different cultures exist side by side within countries, especially in Africa. It is not uncommon to have a European culture, alongside an indigenous culture, say, for example, Shona, in Zimbabwe. Culture also reveals itself in many ways and in preferences for colours, styles, religion, family ties and so on. The colour red is very popular in the west, but not popular in Islamic countries, where sober colours like black are preferred.

Much argument in the study of culture has revolved around the "standardisation" versus "adaption" question. In the search for standardisation certain "universals" can be identified. Murdock⁷ (1954) suggested a list, including age grading, religious rituals and athletic sport. Levitt⁵ (1982) suggested that traditional differences in task and doing business were breaking down and this meant that standardisation rather than adaption is becoming increasingly prevalent.

Culture, alongside economic factors, is probably one of the most important environmental variables to consider in global marketing. Culture is very often hidden from view and can be easily overlooked. Similarly, the need to overcome cultural myopia is paramount.

Approaches to the study of culture

Keegan³ (1989) suggested a number of approaches to the study of culture including the anthropological approach, Maslow's approach, the Self-Reference Criterion (SRC), diffusion theory, high and low context cultures and perception. There are briefly reviewed here.

Anthropological approach

Culture can be deep seated and, to the untrained can appear bizarre. The Moslem culture of covering the female form may be alien, to those cultures which openly flaunt the female form. The anthropologist, though a time consuming process, considers behaviour in the light of experiencing it at first hand. In order to understand beliefs, motives and values, the anthropologist studies the country in question anthropologically and unearths the reasons for what, apparently, appears bizarre.

Maslow approach

In searching for culture universals, Maslow's⁶ (1964) hierarchy of needs gives a useful analytical framework. Maslow hypothesised that people's desires can be arranged into a hierarchy of needs of relative potency. As soon as the "lower" needs are filled, other and higher needs emerge immediately to dominate the individual. When these higher needs are fulfilled, other new and still higher needs emerge. The hierarchy is illustrated in figure 3.1.

Figure 3.1 Maslow hierarchy of needs

Physiological needs are at the bottom of the hierarchy. These are basic needs to be satisfied like food, water, air, comfort. The next need is safety - a feeling of well being. Social needs are those related to developing love and relationships. Once these lower needs are fulfilled "higher" needs emerge like esteem - self respect - and the need for status improving goods. The highest order is self actualisation where one can now afford to express oneself as all other needs have been met.

Whilst the hypothesis is simplistic it does give an insight into universal truisms. In Africa, for example, in food marketing, emphasis may be laid on the three lower level needs, whereas in the developed countries, whilst still applicable, food may be bought to meet higher needs. For example, the purchase of champagne or caviar may relate to esteem needs.

Case 3.1 The Case Of Maize Meat In Africa

Introduced by the white settler, maize meat is the staple diet of the population of countries in Eastern and Southern Africa, Zambia, for example is capable of producing over 30 million x 90Kgs bags with a marketable surplus of 20 million x 90Kg bags, most of which goes to feed the urban population. For a lot of people, unable to improve their lot, this remains as the staple diet

throughout their lives. However, many Africans who are able to improve their lot, progress on to other forms of nourishment -fish. potatoes, good meat cuts and even fast foods, some of this brought about by social interaction. Interestingly enough, maize is still often eaten despite the social and economic progression that an individual may make.

The self reference criterion (SRC)

Perception of market needs can be blocked by one's own cultural experience. Lee (1965)⁴ suggested a way, whereby one could systematically reduce this perception. He suggested a four point approach.

- a) Define the problem or goal in terms of home country traits, habits and norms.
- b) Define the problem or goal in terms of the foreign culture traits, habits and norms.
- c) Isolate the SRC influence in the problem and examine it carefully to see how it complicates the pattern.
- d) Redefine the problem without the SRC influence and solve for the foreign market situation.

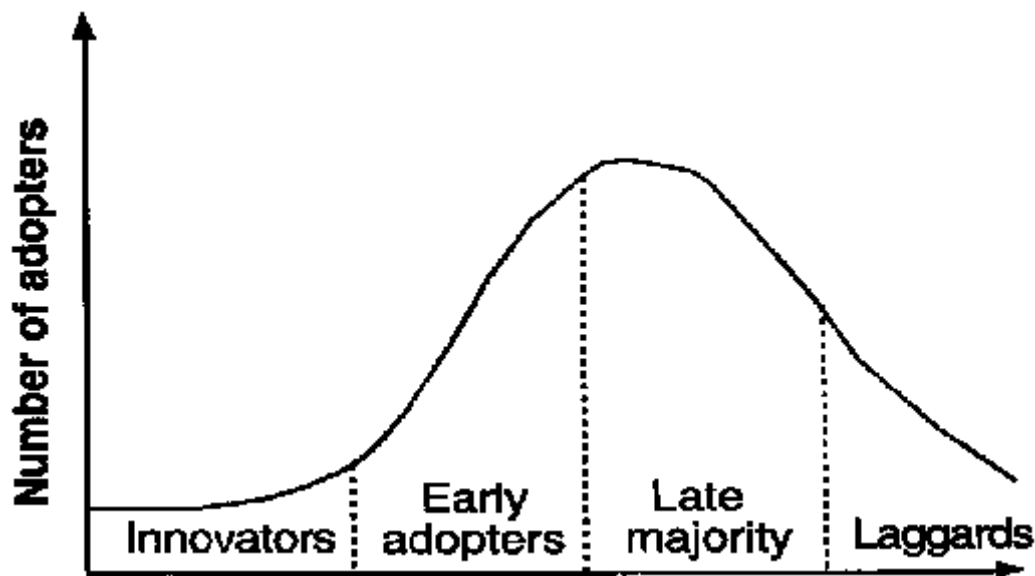
The problem with this approach is that, as stated earlier, culture may be hidden or non apparent. Unearthing the factors in b) may, therefore, be difficult. Nonetheless, the approach gives useful guidelines on the extent for the need of standardisation or adaption in marketing planning.

Diffusion theory

Many studies have been made since the 1930's to assess how new innovations are

diffused in a society. One of the most prolific writers was Everett Rogers⁸. In his book, "Diffusion of Innovations" (1962) he suggested that adoption was a social phenomenon, characterised by a normal distribution. See figure 3.2.

Figure 3.2 Adopter categories



In this case the innovators are a small percentage who like to be seen to lead, then the others, increasingly more conservative, take the innovation on. The adoption process itself is done in a series of stages from awareness of the product, through to interest, evaluation, trial and either adoption or rejection (in the case of non adopters). The speed of the adoption process depends on the relative advantage provided by the product, how compatible or not it is with current values or experiences, its complexity, divisibility (how quickly it can be tried) and how quickly it can be communicated to the potential market. In international marketing an assessment of the product or service in terms of these latter factors is very useful to the speed of its adoption. Most horticultural products, for example, have no problem in transfer from one culture to another, however specific types may have. It is unlikely that produce like "squash" would sell well in Europe, but it does in Zimbabwe.

High and low context cultures

Hall² (1977) has suggested the concept of high and low context cultures as a way of understanding different cultural orientations. In low context cultures messages have to be explicit, in high context cultures less information is required in the verbal message. In low context cultures, for example like Northern Europe, a person's word is not to be relied on, things must be written. On the other hand, in high context cultures, like Japan and the Middle East, a person's word is their bond. It is primarily a question of trust.

Perception

Perception is the ability to see what is in culture. The SRC can be a very powerful negative force. High perceptual skills need to be developed so that no one misperceive a situation, which could lead to negative consequences

Many of these theories and approaches have been "borrowed" from other contexts themselves, but they do give a useful insight into how one might avoid a number of pitfalls of culture in doing business overseas.

Consumer products are likely to be more culturally sensitive than business to business products, primarily because technology can be universally learned.

However there are dangers in over generalisations. For example, drink can be very universal and yet culture bound. Whilst appealing to a very universal physiological need - thirst - different drink can satiate the same need. Tea is a very English habit, coffee American but neither are universals in African culture. However, Coca Cola may be acceptable in all three cultures, with even the same advertising appeal.

Nationalism

Nationalism is a cultural trait which is increasingly surfacing. The break-up of Yugoslavia and the USSR are witness to the fact. In Western, developed countries a high degree of interdependence exists, so it is not so easy to be all that independent. In fact, blocs like NAFTA and the EU are, if anything, becoming more economically independent. However, less developed countries do not yet have the same interdependence in general, and so organisations need to reassess their contribution to the development of nations to make sure that they are not holding them "to hostage".

Culture is a very powerful variable and cannot be ignored. Whilst "universals" are sought there is still a need to understand local customs and attitudes. These are usually no better understood than by the making use of in country personnel.

The elements of culture

The major elements of culture are material culture, language, aesthetics, education, religion, attitudes and values and social organisation.

Material culture

Material culture refers to tools, artifacts and technology. Before marketing in a foreign culture it is important to assess the material culture like transportation, power, communications and so on. Input-output tables may be useful in assessing this. All aspects of marketing are affected by material culture like sources of power for products, media availability and distribution. For example, refrigerated transport does not exist in many African countries. Material culture introductions into a country may bring about cultural changes which may or may not be desirable. (see case)

Case 3.2 Canned Drinks In Zimbabwe

Until the early 1990s, Zimbabwe did not allow both alcoholic and non alcoholic beverages to be packed in cans. There were both economic and environmental reasons for this. Economically, Zimbabwe did not have the production facility for canning. Environmentally, Zimbabwe had seen the litter in Botswana, caused by discarded empty cans. By putting a deposit on glass containers they ensured the empties were returned to the retailer, thus avoiding a litter problem.

However, with the advent of trade liberalisation under the Structural Reform Program, the Government of Zimbabwe decided to allow the import of some 4 million cans as an experiment, after which it would assess the environmental impact. The result was a huge influx of canned alcoholic and other beverages not just from nearby Botswana and South Africa but from Australia, USA and Europe

Language

Language reflects the nature and values of society. There may be many sub-cultural languages like dialects which may have to be accounted for. Some countries have two or three languages. In Zimbabwe there are three languages - English, Shona and Ndebele with numerous dialects. In Nigeria, some linguistic groups have engaged in hostile activities. Language can cause communication problems - especially in the use of media or written material. It is best to learn the language or engage someone who understands it well.

Aesthetics

Aesthetics refer to the ideas in a culture concerning beauty and good taste as expressed in the arts -music, art, drama and dancing and the particular appreciation of colour and form. African music is different in form to Western music. Aesthetic differences affect design, colours, packaging, brand names and media messages. For example, unless explained, the brand name FAVCO would mean nothing to Western importers, in Zimbabwe most people would instantly recognise FAVCO as the brand of horticultural produce.

Education

Education refers to the transmission of skills, ideas and attitudes as well as training in particular disciplines. Education can transmit cultural ideas or be used for change, for example the local university can build up an economy's performance.

The UN agency UNESCO gathers data on education information. For example it shows in Ethiopia only 12% of the viable age group enrol at secondary school, but the figure is 97% in the USA.

Education levels, or lack of it, affect marketers in a number of ways:

- advertising programmes and labelling
- girls and women excluded from formal education (literacy rates)
- conducting market research
- complex products with instructions
- relations with distributors and,
- support sources - finance, advancing agencies etc.

Religion

Religion provides the best insight into a society's behaviour and helps answer the question why people behave rather than how they behave.

A survey in the early 1980s revealed the following religious groupings (see table 3.1)³.

Table 3.1 Religious groupings

Groups	Million
Animism	300
Buddhism	280
Christianity	1500
Hinduism	600
Islam	800
Shinto	120

Religion can affect marketing in a number of ways:

- religious holidays - Ramadan cannot get access to consumers as shops are closed.
- consumption patterns - fish for Catholics on Friday
- economic role of women - Islam
- caste systems - difficulty in getting to different costs for segmentation/niche marketing
- joint and extended families - Hinduism and organizational structures;
- institution of the church - Iran and its effect on advertising, "Western"

images

- market segments - Maylasia - Malay, Chinese and Indian cultures making market segmentation
- ensitivity is needed to be alert to religious differences.

Attitudes and values

Values often have a religious foundation, and attitudes relate to economic activities. It is essential to ascertain attitudes towards marketing activities which lead to wealth or material gain, for example, in Buddhist society these may not be relevant.

Also "change" may not be needed, or even wanted, and it may be better to relate products to traditional values rather than just new ones. Many African societies are risk averse, therefore, entrepreneurialism may not always be relevant. Attitudes are always precursors of human behaviour and so it is essential that research is done carefully on these.

Social organisation

Refers to the way people relate to each other, for example, extended families, units, kinship. In some countries kinship may be a tribe and so segmentation may have to be based on this. Other forms of groups may be religious or political, age, caste and so on. All these groups may affect the marketer in his planning.

There are other aspects of culture, but the above covers the main ingredients. In one form or another these have to be taken account of when marketing internationally.

Hofstede's contribution

One of the most prolific writers on culture is Hofstede, a Dutchman. Working with two colleagues Franke and Bond¹ (1991) he sought to explain why "culture" could be a better discriminator than "material" or "structural conditions" in explaining why some countries gain a competitive advantage and others do not.

They noted that in Michael Porter's 1990 book on the "Competitive Advantage of Nations" he popularized the idea that nations have competitive advantage over others. Unfortunately he stopped short of the key question as to why certain nations develop competitive advantage and others do not. In their study Hofstede, Franke and Bond sought to answer that question in research entitled "Cultural Roots of Economic Performance". They hypothesized that differences in cultural values, rather than in material and structural conditions (the private and state control) are ultimate determinants of human organization and behaviour, and thus of economic growth.

They took two examples of 18 and 20 nations, comparing rich countries like the USA, UK, Canada and Australia, to poor countries like India, Pakistan and Thailand and those on the rich/poor dividing line like Hong Kong, Taiwan and Singapore. Nigeria and Zimbabwe were in the study.

In order to understand the results a word of explanation is needed on what the authors mean by "cultural variables". There are as follows:

- "Power distance" - Society's endorsement of inequality, and its inverse as the expectation of relative equality in organizations and institutions
- "Individualism" - The tendency of individuals primarily to look after themselves and their immediate families and its inverse is the integration of people into cohesive groups
- "Masculinity" - An assertive or competitive orientation, as well as sex

role distribution and its inverse is a more modest and caring attitude towards others

- "Uncertainty Avoidance" - Taps a feeling of discomfort in unstructured or unusual circumstances whilst the inverse show tolerance of new or ambiguous circumstances
- "Confucian Dynamism" - Is an acceptance of the legitimacy of hierarchy and the valuing of perseverance and thrift, all without undue emphasis on tradition and social obligations which could impede business initiative.
- "Integration" - Degree of tolerance, harmony and friendship a society endorses, at the expense of competitiveness: it has a "broadly integrative, socially stabilizing emphasis"
- "Human Heartedness" - Open-hearted patience, courtesy and kindness.
- "Moral Discipline" - Rigid distancing from affairs of the world.
- In the research work these variables were called "constructs" or "indices".

Now, the results of the research have a revealing, and sobering effect on economies seeking economic growth via structural or material changes viz:

- a) "Confucian dynamism" is the most consistent explanation for the difference between different countries' economic growth. This index appears to explain the relative success of East Asian economies over the past quarter century.
- b) "Individualism" is the next best explanatory index. This is a liability in a world in which group cohesion appears to be a key requirement for collective economic effectiveness.
- c) In extrapolations on the data after 1980 economic growth seems to be aided by relative equality of power among people in organizations (lower power distance) and by a tendency towards competitiveness at the expense of friendship and harmony (lower integration).

In conclusion, therefore, "better" economic growth can be explained more by culture than structural or material changes. Economic power, from this study, comes from "dynamism" - the acceptance of the legitimacy of hierarchy and the valuing of perseverance and thrift, all without undue emphasis on tradition and social obligations which could impede business initiative; "individualism" - the tendency of individuals primarily to look after themselves and their immediate families (its inverse is the integration of people into cohesive groups) and finally a tendency towards competitiveness at the expense of friendship and harmony.

Whilst debatable, this research may attempt to explain why the Far East, as compared to say Africa, has prospered so remarkably in the last ten years. The cultural values of the populations of the East may be very different to those of Africa. However, further evidence is required before generalisation can be made.

Culture has both a pervasive and changing influence on each national market environment. Marketers must either respond or change to it. Whilst internationalism in itself may go some way to changing cultural values, it will not change values to such a degree that true international standardisation can exist. The world would be a poorer place if it ever happened.

Chapter Summary

Along with "economics", "culture" is another so called "environmental uncontrollable" which marketers must consider. In fact, it is a very important one as it is so easy to misread a situation and take decisions which subsequently can prove disastrous.

The study of culture has taken many forms including the anthropological approach, Maslow's hierarchy of needs, the self reference criterion, diffusion theory, high and low context culture, and perception approaches. "Culture" itself is made up of a number of learned characteristics including aesthetics, education, religion and attitudes and values. One of the principal researchers on culture and its consequences is Hofstede, who, as a result of his studies, offers many insights and guides to marketers when dealing with diverse nationalities. Ignoring differences, or even similarities, in culture can lead to marketers making and executing decisions with possible disastrous results.

Key Terms

Anthropology Diffusion theory High context culture Attitudes and values Hierarchy of needs Low context culture Culture Self reference criterion

Review Questions

1. Describe the main elements of culture.
2. List the major approaches to the study of culture and show their relevance in international marketing citing examples.
3. How does Hofstede's approach to cultural differences aid the international marketer? Do you think his approach is reasonable and valid?

Review Question Answers

1. Main elements of culture -

"Definition of culture" - The integrated total sum of learned behavioral traits that are manifest and shared by members of society.

Elements are - language, social norms, religion, ethics, socio economics, mores, traditions, societal regulations, nationalism, aesthetics, material culture, attitudes, values, social organisation.
(Discuss each in turn with students).

2. Main approaches to culture

- a) Anthropological - relevance to interpretation of ways of doing business e.g. Japan versus USA.
- b) Maslow's hierarchy of needs - relevance to product type, sophistication and price
- c) Self reference criterion - relevance in the standardisation versus adoption concepts of marketing strategy.
- d) Diffusion theory - relevance to rates of adoption of innovations and of new products.
- e) High and low context - relevance to the degree of necessity to have explicitly verbal or written communications e.g. contracts.

f) Perception - relevance to sensitivity in operation of the marketing mix variables e.g. advertising.

3. Students should be asked to describe Hofstede's approach first. Whilst he concentrated in his original theories on "power distance" and "masculinity versus femininity" dimensions, students should note how he adapted this approach to the study described in the text. Whilst his approach may be reasonable it can only be valid if it is repeated with the same results across a number of studies and/or experiments.

Exercise 3.1 Cultural dimensions group discussion.

The following is a group discussion/participation exercise aimed at discovering dimensions of culture, and their effect on business attitudes. The tutor is required to ask each question in turn and discuss the response.

NB. - The tutor should be sensitive to group dynamics before using this exercise.

1. In one word give your basic impression or image of the following:

- a) English people.....
- b) Africans.....
- c) Indians (Asians).....
- d) Japanese.....
- e) Americans.....
- f) Italians.....
- g) Russians.....
- h) Arabs.....

2. Why do you think these people are what you say they are

- a) English.....
- b) Africans.....
- c) Indians (Asians).....
- d) Japanese.....
- e) Americans.....
- f) Italians.....
- g) Russians.....
- h) Arabs.....

The tutor can pause here and lead a discussion on the responses.

3. Which of these people do you think you would most like to do business with and why?

4. Which of these people would you least like to do business with and why?

5. Describe briefly your attitude towards the following products. Why do you feel this way? If you do not know the product still describe your attitude.

Japanese cars Kenyan tea
 Ugandan chillies Zimbabwean beef
 Tanzanian coffee Malawian tobacco
 Indian cashewnuts Malaysian rubber
 Nigerian beer

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Chapter 4: The Legal, Political/Trade Environment

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The legal/political aspect is very important in global marketing. "International law" can be defined as rules and principles that states and nations consider binding upon themselves. This raises two interesting characteristics of international law. The first is that "law" belongs to individual nations and international law only exists to the degree that individual nations are willing to relinquish their rights. The second is the lack of an adequate international judicial and administrative framework or a body of law which would form the basis of a truly comprehensive international legal system.

The international business is also subject to political decrees made by governments both in "home" and "host" countries. Home governments can apply pressure not to deal with disapproved parties. These measures may take the refusal to grant an export licence, or withdrawal of export guarantee cover. The host government may take measures like taxation, ownership controls, operating restrictions or expropriation.

Chapter Objectives

The objectives of this chapter are:

- To give an understanding of the major factors which must be considered in the legal/political environment when planning to market globally
- To describe the "Terms of Access" and show the importance of these as vital elements of facilitating trade
- To give, in detail, a description of the main elements of the latest GATT Round
- To show the importance of legal/political aspects in global marketing.

Structure Of The Chapter

The chapter begins by looking at the major factors which the marketer must consider in assessing vulnerability to the legal/political environment. It then goes on to describe in detail the major elements of the legal environment and Terms of Access, including both tariff and non tariff barriers. A major section of the chapter is devoted to the main provisions of the new GATT Round (1995) and an assessment of its impact on the global marketer.

Laws, rules, and standards

All agricultural exports operate within an institutional environment, which is made up of a set of political, social and legal ground rules. These ground rules form the laws of all production, exchange and distribution and give rise to certain expectations and assurances about the actions of others, and give order and stability to the means of doing business. The most important rules in any system are those defining, allocating and enforcing property rights, and rules and conventions defining allowable and non-allowable forms of cooperation and competition (standards, rules of contract, fair trading etc). Well defined and enforced systems regarding property rights are essential. Articulated ownership and rights to use, trade and alter assets is vital to market development, since this assigns to individuals the right to benefits and losses in production and marketing activities.

Rules and conventions specifying entry conditions and boundaries on cooperative and competitive policies also facilitate exchange and coordination. The establishment and enforcement of standards can reduce transaction costs by increasing the available information to buyers and consumers. Standards may include basic weights, measures, quality grades and contract forms. Quality standards may be mandatory or voluntary and minimum or multiple grades. These standards help where trade is at a distance. The EU has a strict set of standards regarding horticultural products for example, including hygiene, quality and certificates of origin.

Licensing also facilitates marketing agencies and producers by reducing transaction costs. This occurs when the criteria for licensing revolves around asset holdings, financial solvency and so on. Performance standards are built in to maintain the licensing agreement.

Increasingly, consumer and trading bodies like the EU are enforcing the disclosure of more and more information. Particularly, these efforts revolve around packaging, labelling and information, for example, pesticides used on horticultural produce. As this trend to disclosure of information grows, along with the phenomenon of product liability, regulations regarding certain tests or inspection of products, handling and processing procedures may be enforced. So may ingredient and nutrition information. This is becoming an increasingly important issue as food products become more complex and varied. One of the problems with this noble effort to inform the consumer is that producers may lose their competitive differentiation advantage through divulging information to competitors.

The EU has gone to extraordinary lengths to inform the consumer, issuing directives on product descriptions and pricing. For example the EU directive on the pricing of cabbages runs to hundreds of pages and, what constitutes "chocolate" and a "sausage" to name but two products, is quite revealing. (see chapter on Product Decisions). The following case proves the point².

The EU is also very strict, as is the USA, on food additives or flavour substitutes. It is particularly so for any substance which may have long term harmful effects. The EU produces "E numbers" standards for product additives and artificial colorants or flavourings.

Issues

Most issues in the legal/political environment centre around the following:-

- i) "Institutional environment" - made up of political, social and legal ground rules within which the global marketer must operate.
- ii) Property rights - patents, trademarks.
- iii) Taxation - what taxation schemes will be faced abroad?
- iv) Recourse - possibility and length of action with the possibility of image damaging necessitating arbitration.
- v) Movement of equity and expropriation threats - often necessitating protocols or the signing of trade frameworking agreements.

Efforts to regulate the international legal system include individual country efforts, like the USA International Trade Commission and the GATT system. The GATT system is a set of norms and procedures which member governments have accepted to create order and predictability in international trade relations.

Case 4.1 When Is Chocolate Not Chocolate?

Sometime this year the European Union will have to decide at what point chocolate stops being chocolate. As defined by a 1973 European Commission directive, chocolate can only contain cocoa butter, cocoa solids, sugar and, in the case of milk chocolate, milk.

But Britain, Ireland and Denmark as well as new EU members Austria Finland and Sweden are exempted from the directive and allow manufacturers to use cocoa-butter equivalents (CBEs) such as palm oil in making chocolate.

Now, as the EU brings its policies into line, it is considering whether to allow up to 5 percent CBEs in chocolate manufacturing.

Chocolate producers stand to profit from relaxed standards, especially if the price of cocoa were to soar.

But the ingredients are less likely to be as much a sticking point as the labelling issue.

"What is to stop the chocolate industry from putting pressure on the EU to allow 10 percent or even complete substitution of cocoa butter and still call the remaining product chocolate?" said Gerrit Ribbink of the Netherlands Development Organisation (SNV) in The Hague. It's misleading to the consumer to use other ingredients and still stick to the name chocolate."

A British consumer spokesman said Britain, which is keen on keeping its current practice of using up to 5 percent CBEs, would oppose new laws that would change labelling standards.

"The UK would say the products are still called chocolate", he said.

For cocoa - producing countries, the packaging issue is secondary to the fear that an increase in the use of CBEs will lead to a drop in the demand for cocoa.

In a statement last October, the 13-nation Cocoa Producers' Alliance, which produces more than 90 percent of the world's cocoa, urged the European Union not to enact the proposals.

SNV estimated that if the EU allowed CBEs in chocolate, demand for cocoa could drop by anywhere between 100 000 and 200 000 tonnes. affecting up to 10 percent of world cocoa production.

What scares producers even more is that American chocolate manufacturers could lobby the US Food and Drug Administration (FDA) to follow the EU's example, and this could cut demand even further.

The three basic principles are:

- i) nondiscrimination - each member country must treat the trade of all other member countries equally
- ii) open markets which are encouraged by GATT through a prohibition of all forms of protection except customs tariffs, and
- iii) fair trade which prohibits export subsidies on manufactured products and limits the use of export subsidies on primary products.

None of these principles is fully realized, simply because it is impossible to "police" all sovereign governments and dictate what is or is not tariff or non tariff discriminating. The need to systematically evaluate the legal/political environment cannot be overemphasized. This can be done by reference to the appropriate embassy or government agency or via magazines like "Foreign Affairs" and even by reference to a domestic agency in the host country.

The political environment

Checks can be made on the legal/political system as to its ideology, nationalism, stability and international relations.

Ideology: A country's ideological leaning may be capitalism, socialism, a mixture or other form. In the last years remarkable changes have been taking place in the ideologies of many countries. The most dramatic example has been the collapse of the communist USSR and Eastern Europe and its replacement with market led policies and ideologies. Similarly, many African countries are abandoning their centrist leanings in favour of market led economies, for example, Zimbabwe and Tanzania.

Nationalism: Much was said about nationalism in the previous section. Whilst, primarily a phenomenon of the developing countries, Yugoslavia has shown it is not entirely so. Nationalism can lead to expropriation of foreign held assets.

Stability: Changes in regime, violence and cultural divisions based on language or other factors can lead to a very uncertain environment in which to conduct business. The current uncertainty in Liberia and Rwanda, the violence of Somalia and Yugoslavia increase the risk and diminish the confidence of doing business in these countries.

International relations: In general international relations have improved over the last twenty years. The development of GATT, NATO and the EU have gone a long way to reduce the element of "foreignness".

Expropriation

Expropriation is an extreme form of political action. It may occur for a number of reasons, including the desire to retain national assets, as a "hostage" situation in international disputes, for example the seizure of Union Carbide's assets after the Bhopal disaster in India. Other government activity, which affects capital investment includes joint venturing insistence and repatriation of funds. "Partnering" remains widespread (inward investment in tandem with a domestic company) as does restrictions on repatriation of funds. In Zimbabwe, for example, HJ Heinz, the multinational food agent, has entered into partnership with Olivine industries. Over time, even if initially the investment is not favourable, the Government may relax its conditions as it sees the benefits.

If expropriation is a real possibility then the investor should seek to minimise risk by:

- i) relatively rapid depreciation of assets and repatriation of funds by manipulated transfer prices
- ii) establish a local supply infrastructure so that any adverse action damages the host economy
- iii) raise as much investment capital in the country as possible
- iv) retain control of critical inputs and minimise local stocks of these.

However these measures may increase the risk of expropriation or reduce the potential success of the venture.

Incentives

Many countries try to reduce perceived risk by promoting inward investment through the provision of tax breaks, free ports, enterprise zones etc., which are not tied as in partnering. The key is to look at what the disadvantages are. If the government mainly wishes to attract the mobile investor, or overcome say poor local skills, one has to assess what would happen if the scheme was withdrawn once the capital had been committed. Similarly if viability depends on incentives rather than real return on investment, the question is, is the venture really worth it?

Assessing political vulnerability

Political vulnerability should be assessed by using a systematic checklist. Such a checklist should include the following:

- The firm's own country's relations with other countries
- Sensitivity of the product or industry
- Size and location of operation - the bigger the more vulnerable
- Visibility of firm - is it high profile say via advertising?
- Host country's political situation
- Company behaviour - is it a good corporate citizen?
- Contribution to host country, for example, employment
- Localisation of operations
- Subsidiary dependence.

Depending on the answers to these checkpoints, the amount of risk, real or perceived, can be assessed and fed into the investment discussion.

Marketing implications

Political factors give rise to a number of marketing implications. These include the following:

- Is the product ever subject to political debate regarding, say, adequacy of supply, for example, oil?
- Is the product a critical input for other industries, for example, cement?
- Is the product socially or politically sensitive, for example, food?
- Is the product of national defence significance?
- Is the product taking a disproportional amount of capital repayment?
- Is the product leading to the locus of control being held outside of the host country?

Again, the answers to these questions will enable the marketer to assess the degree to which the product being marketed has to be priced and resourced, so as to either avoid or reduce the risk of expropriation or other political reactions.

The legal environment

As indicated in the introduction to this section, the international legal framework is somewhat confused. Most controls or regulations revolve around export and import controls, transfer pricing, taxes, regulation of corrupt practices, embargoed nations, antitrust, expropriation and distribution of equity, patents and trademarks. The following touches on a number of these issues and in particular the import/export regulations (terms of access).

International law

To many, the supreme body is the International Court of Justice, situated in The Hague, Holland. Here a number of international disputes may be taken for ultimate adjudication. However, a series of other bodies and legislation exists.

a) FCN (Friendship, Commerce and Navigation) and Tax Treaties primarily US based and concerned with giving protection of trading rights and avoiding double taxation.

b) IMF and GATT already discussed in the previous section and concerned with member nations international trade restrictions and dumping.

c) UNCITRAL (UN) international trade law commission set up with the intent to provide a uniform commercial code for the whole world, particularly international sales and payments, commercial arbitration and shipping legislation. Works with international chambers of commerce and Governments.

d) ISO (International Standards Organisation) often works with ILO, WHO etc. and contains technical committees working on uniform standards.

e) Patents and trademarks there is no such thing as international patent. The most important patent agreement is the International Convention for the Protection of Industrial Property, first signed in 1883 and now honoured by 45 countries. The treaty provides that if a filer files in a signatory country within one year of the first filing, the filer will be afforded the date of the first filing for priority purposes.

A patent cooperation treaty (PCT) and a European Patent Convention are also in effect. The PCT has 39 countries including the USA, Japan and Brazil. The EU convention covers 15 countries and gives patent protection in all 15 if signified in one.

f) Air transport is covered mainly by IATA (International Air Transport Authority), ICAO (International Civil Aviation Authority) and ITU (International Telecommunication Company).

g) Codes of conduct, like those in the OECD, are not technical law but important. Member countries produce guidelines for multinational enterprises covering aspects of general policy, disclosure of information, competition, financing, taxation, employment and industrial relations.

h) Recourse arbitration is an attempt to reduce disputes by consultation. Some of the most widely used are the International Chamber of Commerce, the American Arbitration Association, the London Court of Arbitration and the Liverpool Cotton Exchange.

Marketing implications

The implications of international law on marketing operations are legion. The principle ones are as follows:

- Product decisions - physical, chemical, safety, performance, packaging, labelling, warranty
- Pricing decisions - price controls, resale price maintenance, price freezes, value added systems and taxation
- Distribution - contracts for agents and distribution, physical distribution, insurance
- Promotion - advertising codes of practice, product restriction, sales promotion and,
- Market research - collection, storage and transmission of data.

Other areas affected are obviously in currency and payments but these will be dealt with in later sections.

Terms of access

One particular area where legal/political effects are felt by international marketers is in the terms of access, so the rest of this section will be given over to a discussion of these. The phrase "terms of access" refers to all the conditions that apply to the importation of goods from a foreign country. The major instruments covered by this phrase include import duties, import restrictions or quotas, foreign exchange regulations and preference arrangements.

Tariff systems

Tariff systems provide either a single rate of duty for each item applicable to all countries, or two or more rates, applicable to different countries or groups of countries. Tariffs are usually grouped into two classifications:

Single-column tariff: The single-column tariff is the simplest type of tariff and consists of a schedule of duties in which the rate applies to imports from all countries on the same basis.

Two-column tariff: Under the two-column tariff, the initial single column of duties is supplemented by a second column of "conventional" duties which show reduced rates agreed through tariff negotiations with other countries. The conventional rates, for example those agreed upon by "convention", are supplied to all countries enjoying MFN (most favoured nation) treatment within the framework of GATT. Under GATT, nations agree to apply their most favourable tariff or lowest tariff rate to all nations who are signatories to GATT, with some substantial exceptions.

Preferential tariff

A preferential tariff is a reduced tariff rate applied to imports from certain countries. GATT prohibits the use of preferential tariffs with the major exceptions of historical preference schemes, such as the British Commonwealth preferences and similar arrangements that existed before the GATT convention; preference schemes that are part of a formal economic integration treaty, such as free-trade areas or common markets; and the granting of preferential access to industrial country markets to companies based in less-developed countries.

Types of duty

Customs duties are of two different types. They are calculated either as a specific amount per unit or specific duty, or as a percentage of the value of the goods or ad valorem, or as a combination of both of these methods.

Ad valorem duties: This duty is expressed as a percentage of the value of goods. The definition of customs value varies from country to country. Therefore an exporter is well advised to secure information about the valuation practices applied to his product in the country of destination. A uniform basis for the valuation of goods for customs purposes was elaborated by the Customs Cooperation Council in Brussels and was adopted in 1953. In countries adhering to the Brussels convention on customs valuation, the customs value is landed CIF cost at the port of entry. This cost should reflect the arm's-length price of the goods at the time the duty becomes payable. Major trading nations that are not members of the Brussels convention on customs valuation are the USA and Canada, which use FOB costs as the basis of valuation, and Japan, which uses CIF value.

Specific duties: These duties are expressed as a specific amount of currency per unit of weight, volume, length or number of other units of measurements; for example, fifty US cents per pound, one dollar per pair, twenty-five cents per square yard. Specific duties are usually expressed in the currency of the importing country, but there are exceptions, particularly in countries that have experienced sustained inflation. In the Chilean tariff, rates are given in gold pesos and, therefore, must be multiplied by an established conversion factor to obtain the corresponding amount of escudos.

Alternative duties: In this case both ad valorem and specific duties are set out in the custom tariff for a given product. Normally, the applicable rate is the one that yields the higher amount of duty, although there are cases where the lower is specified.

Compound or mixed duties: These duties provide for specific plus ad valorem rates to be levied on the same articles.

Anti-dumping duties: The term dumping refers to the sale of a product at a price lower than that normally charged in a domestic market or country of origin. To offset the impact of dumping, most countries have introduced legislation providing for the imposition of antidumping duties if injury is caused to domestic producers. Such duties take the form of special additional import charges designed to cover the difference between the export price and the "normal" price, which usually refers to the price paid by consumers in the exporting countries. Anti-dumping duties are almost invariably applied to articles that are produced in the importing country.

Other import charges

Variable import levies: Several countries, including Sweden and the European Union, apply a system of variable import levies to their imports of various agricultural products. The objective of these levies is to raise the price of imported products to the domestic price level.

Temporary import surcharges: Temporary surcharges have been introduced from time to time by certain countries, such as the UK and the USA, to provide additional protection for local industry and, in particular, in response to balance of payments deficits.

Compensatory import taxes: In theory these taxes correspond with various international taxes, such as value-added taxes and sales taxes. Such "border tax adjustments" must not, according to GATT, amount to additional protection for domestic producers or to a subsidy for exports. In practice, one of the major tax inequities today is the fact that manufacturers in value-added tax (VAT) countries do not pay a value added tax on sales to non-VAT countries such as the USA while USA manufacturers who pay income taxes in the USA must also pay VAT taxes on sales in VAT countries. For example, EU imposition of a tax on imported horticultural products.

Adaptation to meet local requirements: The impact of adaptation to conform to local safety and other requirements can be crippling. For example, a Jaguar car made in the UK and sold in Japan would be three times its UK value. An alternative approach to the Japanese market would be to begin with the Japanese customer to identify the customer's wants and needs and to design a product for that market or to adapt the design to a world design that would fit the needs and wants in both the domestic and the Japanese markets. The implementation of such a program would involve major marketing investments by the Jaguar Motor Company in establishing distribution, advertising and promotion, training and developing organisations to market the car in Japan. It would also involve significant expenditures in designing the car to appeal to the needs of the Japanese customer.

The Kennedy Round and the General Agreement on Tariffs and Trade (GATT)

A major development of the 1960s was a series of agreements negotiated in the 1963-67 period, popularly known as the "Kennedy Round". During these negotiations, tariff concessions on nonagricultural products by the four largest industrial participants -the USA, the UK, Japan, and the EEC - averaged slightly more than 35 percent and covered about \$20 billion of trade. On agricultural products, excluding grains, the average reduction by the major industrial countries amounted to about 20 percent and affected about one-half of the dutiable imports. Tariff reductions under the agreement took place in five equal instalments. The first was concluded on January 1, 1968 and the last on January 1, 1972. Over 60 thousand items were involved, representing approximately \$40 billion in world trade annually.

At the conclusion of the Kennedy Round negotiations, tariffs on dutiable nonagricultural products averaged 9.9 percent in the USA, 8.6 percent in the EEC, 10.8 percent in the UK and 10.7 percent in Japan.

A second "Tokyo Round" of trade negotiations was undertaken by the 97 nation GATT in the 1970s. The target in these negotiations, which were still under way in 1979, was to achieve another 35 percent tariff reduction.

The latest GATT round, the so called Uruguay Round, was long held up over subsidy wranglings between the EU and the USA. However in early 1994, an agreement was concluded, but is yet to be ratified by all signatories.

When the European Union and the USA agreed to bury their differences (primarily over subsidies and trade in television and films) on Tuesday 14 December 1992, the way was cleared for the signing of the eighth General Agreement on Tariffs and Trade (GATT) in April 1994 in Morocco, only two days before the deadline. Whilst only 20 countries took part in the first round signed in Geneva in 1947, the current round boasts 116 participants. After failing to meet two deadlines in 1990 and 1991, many thought the Uruguay round would never be concluded. However, completion of the North American Free Trade Agreement (NAFTA) and the hints of the development of a similar trading block in the Asian-Pacific Region (APEC), helped focus the minds of the negotiators.

The principal aim in the early days of GATT was to cut tariffs and to this end average tariffs have fallen from almost 40% to 4.7% and now it will be as little as 3% if the Uruguay round succeeds. GATT has, over the years, gradually gone into other areas. The Kennedy Round introduced rules against dumping exports, the Tokyo Round made it harder for countries to manipulate technical standards, import licences and customs regulations in order to keep imports out. GATT basically stands to defuse trade tension between countries and smaller countries enjoy better access to larger countries' markets through GATT than they could if they had negotiated by themselves.

The new package, which covers ten times the value of the previous seven GATT

Rounds put together, touches on more than four billion Sterling Pounds worth of International Trade, nearly twenty times the size of UK's annual budget. Economists reckon that the Uruguay Round will add about \$270 billion to world income within a decade and boost global trade by more than 12%. The deal also creates a powerful international bureaucracy, the World Trade Organisation (WTO) to police world trade and act as a bulwark against a return to the economic protectionism which proceeded war in the 1930s. But not all countries will gain. Africa will be a net loser, with Nigeria down by \$1,0 billion. Other fears are that Africa will lose out on agricultural prices but textiles will get a boost.

The proposed effects are shown in figure 4.1⁶

Figure 4.1 GATT who wins what

1. US

Largest number of world's 500 biggest global companies, and biggest services exporter (\$2 billion benefit). Aerospace computer software, agriculture (\$9.3 billion) and textile (\$21.6 billion) sectors will also benefit. Total gain: \$36 billion a year by 2002.

2. Japan

Set to gain from liberalisation in high tech goods, agriculture (\$22 billion), manufacturing. Loses \$0.5 billion through textile liberalisation. Total gain \$27 billion a year by 2002.

3. Asian Tigers

Gain \$3.3 through farm liberalisation, \$1.8 billion in textiles, \$1.1 billion in services. \$7.1 billion overall gain.

4. EU

World's biggest exporting block. Agriculture to see income increase of \$30 billion, textiles (\$27.2 billion), services (\$7 billion), manufacturing (\$7.6 billion) all set to gain-but prospects differ in each country. Total gain: \$61.3 billion a year by 2002.

5. Eastern Europe

Textile services sectors likely to benefit. Former Soviet Union set to gain by some \$13 billion from liberalisation of services. Total gain: \$37 billion a year by 2002.

6. Australia/New Zealand

Large gains from liberalisation of agriculture (\$1.0 billion), textile (\$1.1 billion). Total gain \$2 billion a year by 2002.

7. China

Set to gain \$37 billion a year by 2002.

8. India

Set to gain \$4.6 billion a year by 2002.

9. Africa (excluding Egypt and Libya)

The continent as a whole is set to lose \$2.6 billion, with Nigeria alone down \$1.0 billion. Morocco, Algeria and Tunisia together lose \$0.6 billion, and South Africa loses \$0.4 billion.

10. South America

Set to gain \$8.0 billion, with Brazil on its own up \$3.4 billion.

The estimates take no account of social costs arising from the structural adjustment of economies in the wake of trade liberalisation, especially on Africa and the Far East.

The main provisions of the 450 pages long document covering 28 separate agreements are according to "The Economist" (December 1993)¹; as follows:

- For the first time, a written set of rules to cover trade in services. A framework would exist for the liberalisation, not only of the \$900 billion worth of services that cross borders, but also the \$3 trillion worth of services that are provided domestically around the world - insurance, for example. The modest progress sought in this round would supply a platform for more liberalisation on future rounds.
- Protect all kinds of intellectual property, including patents, copyright and trademarks. That would be good for developed countries, which can collect higher royalties; but some of the developing countries might lose.
- Phase out over ten years of bilateral quotas which make up the multifibre arrangement for textiles and clothing. Tariffs will be cut. Developing countries should benefit.
- Forge a comprehensive agreement in GATT's biggest exception, farm trade. The details are unresolved, but the principles are clear: replace quotas with tariffs; and cut subsidies, especially export subsidies.
- Cut tariffs by at least a third. Tariffs imposed by the big economies on some important items will be eliminated altogether. Special attention has been given to a few very high tariffs and to helping developing countries by cutting tariffs on tropical products,
- Try to reform the rules against subsidies.
- Try to curb the misuse of rules on dumping. This will be difficult to enforce.
- Try to prevent the uses of voluntary export restraints-a sort of import quota which is operated by an exporter under pressure from an importing country. This is almost impossible.
- Tidy up rules on shipment, including inspection, customs, import licensing, technical standards and rules of origin.
- Phase out trade-related investment measures, such as the requirement that foreign investors buy supplies locally.
- Build on earlier agreements in government procurement and civil aircraft.
- Speed up the arbitration of disputes between GATT members. Countries will also find it harder to dissent from judgements.
- Clarify raft of GATT rules.
- Transform GATT from a provisional agreement (it was never ratified by America) into a full institution called the World Trade Organisation.

The cost of not agreeing a round will have been enormous. Suggestions are that it would cost the world economy some extra \$213 - 274 billion each year and worst of all, lead to a gradual erosion of the open trade mechanism. Protectionism would once more raise its head and the whole multilateral trading system would eventually seize up and fall apart.

Whilst the multinationals in computers and electronics etc are definitely likely to gain most, for developing countries the principle effects are likely to be in farm products, textiles and in the effect of services and intellectual property provision. Whilst opening up the world's shopping malls for agriculture products, developing countries are likely to face fierce competition, often from each other, and so will have to operate at greater volumes with lower prices. What is sure is that tariffs will replace quotas, and subsidies, particularly export, will be cut. China and India may be the principle benefactors in textile products due to lower unit cost production structures. Imported products like drugs, film, box and television programmes are likely to be more expensive as manufacturers begin to apply the fine detail of the GATT services and intellectual property claims.

In January 1995, 81 countries and territories, including the United States, European Union and Canada, representing over 90% of international trade became founder members of the World Trade Organisation (WTO), which will absorb the 48 year old GATT over the duration of 1995. The new trade treaty came into force on 1 January 1995. In fact, Japan was the first country to ratify the agreement on 30 December 1994. It is expected that 50 more nations will eventually ratify the treaty and altogether some 155 states including Hong Kong and Macau will eventually sign up. Significantly, China is not included as it failed to convince the "big four" (USA, EU, Japan and Canada) that it had opened up its economy enough. The WTO will administer the new trade treaty and take its place along side the World Bank and the International Monetary Fund as the "third pillar" of the post World War II economic system.

Non-tariff barriers

With the success of the Uruguay Round tariff negotiations, attention has naturally turned to the remaining non-tariff obstacles to trade. A non-tariff trade barrier is defined by economists as any measure, public or private, that causes internationally traded goods and services to be allocated in such a way as to reduce potential real-world income. Potential real-world income is the attainable level when resources are allocated in the most economically efficient manner. To the businessman a non-tariff barrier is any measure, other than tariffs, that provides a barrier or obstacle to the sale of his products in a foreign market. The major non-tariff trade barriers are as follows:

Quotas and trade control: These are specific limits and controls. The trade distortion of a quota is even more severe than a tariff because once the quota has been filled, the price mechanism is not allowed to operate. The good is simply unavailable at any price. "State trading" refers to the practice of monopolising trade in certain commodities. In communist countries all commodities are monopolised, but there are many examples of non-communist government monopolies: the Swedish government controls the import of all alcoholic beverages and tobacco products, and the French government controls all imports of coal.

Discriminatory government and private procurement policies: These are the rules and regulations that discriminate against foreign supplies and are commonly referred to as "Buy British" or "Buy American" policies.

Restrictive customs procedures

The rules and regulations for classifying and valuing commodities as a basis for levying import duties can be administered in a way that makes compliance difficult

and expensive.

Selective monetary controls and discriminatory exchange rate policies

Discriminatory exchange rate policies distort trade in much the same way as selective import duties and export subsidies. Selective monetary policies are definite barriers to trade. For example, many countries from time to time require importers to place on deposit at no interest an amount equal to the value of imported goods. These regulations in effect raise the price of foreign goods by the cost of money for the term of the required deposit.

Restrictive administrative and technical regulations

These include anti-dumping regulations, size regulations and safety and health regulations. Some of these regulations are intended to keep out foreign foods while others are directed towards legitimate domestic objectives. For example, the safety and pollution regulations being developed in the United States for automobiles are motivated almost entirely by legitimate concerns about highway safety and pollution. However, an effect of the regulations, particularly on smaller foreign manufacturers, has been to make it so expensive to comply with US safety requirements that they have withdrawn from the market.

In 1969 GATT published a 276 page report listing non-tariff barriers to trade. This report, which listed such obscure items as an Italian sanitary tax on foreign snake poison, is already out of date.

Packaging or pesticide regulations often erect a hurdle for exports, but not insurmountably so. The EU has strict hygiene requirements for imports of horticultural produce for Africa which require strict observance. Producers of restrictive administrative regulations are incredibly creative in establishing barriers to trade. This can be seen in the following case³:

Case 4.2. Mexican Tomatoes

In 1969, the US Department Of Agriculture put a set of minimum size restrictions on all tomatoes sold in the US market. The regulations provided that mature green tomatoes (those that ripen after they are picked) could not be sold unless they measured more than 2-9/32" in diameter. Vine ripened tomatoes were required to measure at least 2-17/32" in diameter. Mexican tomato farmers were outraged because the regulations barred almost 50 percent of their crop from the US market. Florida growers contended that the regulations were not discriminatory because they applied to both the Mexican and the US crops. But the Mexicans pointed out that the regulations were more lenient on green than ripened tomatoes. Green tomatoes accounted for approximately 85 percent of the Florida tomato crop and only 10 percent of the Mexican crop. While US consumers saw prices rise as much as 30 percent, Mexican tomato framers were enraged while they watched tons of their tomatoes being fed to cattle or simply rotting in heaps along the highway. Rod Batiz, president of the 20 thousand member Confederation of Agriculture Association, was quoted in the "Wall Street Journal" as saying, "The whole of Mexico feels stabbed in the back".

The example illustrates how difficult it is to deal with non-tariff barriers to trade. The Mexicans could protest the decisions of the US Department of Agriculture, but the Florida growers who were competing with the Mexican growers, in effect, wrote their own regulations. They maintained that the regulations worked for the benefit of everyone: growers on both sides of the border and the consumer. A strong case could be made for the harm done by these regulations to Mexican growers and US consumers, but the mechanism for hearing this case did not really exist. The Mexican growers could influence this decision by pressuring the US government through diplomatic channels, or try to appeal directly to consumers and thereby influence legislative and administrative action in government.

An important test of a ruling or regulation is whether it has a greater impact on

foreign producers. If this is the case, and there is no apparent social benefit for consumers, the ruling is a non-tariff barrier.

Tariff classification

Before World War II specific duties were widely used and the tariffs of many countries, particularly those in Europe and Latin America, were extremely complex. Since the war the trend has been toward the conversion to ad valorem duties. Tariff administration has been simplified by the adoption by a large number of countries of the Brussels nomenclature (BTN). This nomenclature was worked out by an international committee of experts under the sponsorship of the Customs Cooperation Council, which in 1955 produced a convention that entered into force in 1959. The rules of this convention are now being applied by most GATT countries. Approximately two-thirds of all world trade is now conducted under tariffs based on the BTN system. It is significant, however, that among major trading nations neither the USA nor Canada uses the BTN.

The BTN groups articles mainly according to the material from which they are made. For less-developed countries, it is both easy to use and applicable to the goods they produce. An additional advantage of the BTN is its widespread use. A common basis for the classification of goods facilitates comparison of duties applied by different countries and simplifies international tariff negotiations.

In spite of the progress made in simplifying tariff procedures, the task of administering a tariff presents an enormous problem. Even a tariff schedule of several thousand items cannot clearly describe every product that enters into international trade. The constant flow of new products and new materials used in manufacturing processes introduces new problems. Often, two or more alternative classifications must be considered in assessing the rate on a particular article depending upon how it is used or its component material. The classification of a product can make a substantial difference in the duty applied. There are two important implications of this fact for export marketers. The first is that exporters should seek the most favourable classification for their products in order to minimise the duty levied in the importing country. The second is that the difficulties of classification raise serious questions about the accuracy of data on international trade patterns. When using international trade data, it is important to bear in mind the enormous problems posed by classification and recognize that the numbers in trade reports may often reflect hasty and arbitrary classifications that distort the true picture of the trade flow. Evidence of the inaccuracy of grade classification practices is provided by frequent failure of import and export figures of the same commodity to reconcile between two countries. Some clever marketers seek to get their products reclassified in order to get a lower tariff structure.

Winds of change

The emergence of Japan in the 1970s and 80s, coupled with more trade between developing countries, harmed the balance of payments of the Western economies. Coupled with oil shocks and debt crises, attitudes to trade changed somewhat in the 1980s. In effect free trade was reversed. The Industry and Development Global Report (1988/89) made a series of observations showing that whilst expansion of demand was there, it was patchy and therefore in some sectors excess occurred. Coupled with schemes like the CAP of the EU (Common Agricultural Policy of the European Union) which produced "mountains" of butter, sugar, etc., this excess led to downward pressure on prices which newly emerging nations may be better equipped to deal with if raw materials are banned in country. The growth of economic unions like the EU which are limited multilateral organisations have undermined the strength of GATT agreements but only in so far as non-tariff barriers are concerned. Such non-tariff barriers may merely be devices to soften up foreign rivals and force them into regulatory voluntary restrictions on trade.

The main non-tariff barriers of recent times have been countervailing duty and anti-dumping. Protectionist measures like these can reduce global opportunities in direct ways (imposition of quotas, Health and Safety Standards, etc.), affect the attractiveness of marketing offers to intermediaries by affecting market price (tariffs), volume (voluntary restraints) and uncertainty ("proved" dumping cases) or they reduce opportunities by affecting the attractiveness of your offer to end users (cancelling out price advantages). Anti-dumping is the worst form of protection because anti-dumping creates uncertainty for producers and intermediaries, one needs not be "guilty" to be penalized for it. Anyone entering the industry after a charge of dumping against it will face the highest rate of levy. They can be fined and therefore be driven away and as a result consumers will suffer.

In order to circumvent protection, options include avoiding certain commodities or industries, teaming up with local contacts, producing from inside the market or self regulation.

The legal/political system is a minefield, with few international standards or regulations to fall back on. Thankfully, for many agricultural products and agribusinesses like timber, fish, livestock and so on, the rules are fairly well defined. However, change can occur very quickly. The imposition of a transport levy by the South Africans affected Zimbabwe's drought relief programme costs, and the increase of duties by 40% by the same country are hitting Zimbabwe's clothing exports there very hard. Zimbabwe and Botswana, who enjoy large beef quotas with the EU, can be affected overnight by a ban. On a number of occasions the EU has imposed a ban on beef exports from Zimbabwe because of a so called "foot and mouth" outbreak in Zimbabwe. Although minor in scale, its consequences can be major for the industry. Marketers are beholden to always keep a constant watch on changes which are and could occur in the legal/political environment.

Chapter Summary

Probably, the most important "Environmental variables" are the political and legal aspects. Laws regarding property rights and regulations regarding permissible and non permissible forms of cooperation and competition are possibly the greatest challenge facing multinational marketers when attempting to cross international boundaries.

Individual country policies, terms of access, tariff and non tariff barriers, and rules and regulations regarding standards of quality, quantity and so on, are so vital that often expert help is required to deal with them.

The new GATT Round, operational from 1995 and effected by the newly constituted World Trade Organisation, is one of the most far reaching trade agreements to date and proposes to boost world trade considerably over the next decade.

Key Terms

Arbitration	Ideology	Quota
Dumping	Levy	Tariff
Duty	Nationalism	Terms of access
Expropriation		

Review Questions

1. Why is it important for Government to have a regulatory framework?
2. Describe the major tariff/duties and non tariff barriers which can be used in international trade as barriers to entry. Give examples.

3. Taking any piece of legislation or example of your choice show how this has been used in either furthering or hindering international agricultural marketing.
4. For any product or service of your choice, in country, show how the main provisions of the new GATT agreement (1995) will affect its trade internationally.

Review Questions Answers

1. Important to have a regulatory framework for the following reasons.

- a) Framework states the political, social and legal ground rules for doing business between and within countries.
- b) The framework gives:
 - i) the basis for all production, exchange and distribution activities
 - ii) gives rise to expectations and assurances about the actions of others and
 - iii) gives order and stability to the means of doing business.

The most important rules are these:

- a) Defining, allocating and enforcing property rights.
- b) Establishing rules and conventions defining allowable and non allowable forms of cooperation and coordination (standards, rules of conduct, fair trading etc).

2. Tariff barriers/duties (terms of access)

- a) Tariffs - single column, two column, preferential.
- b) Duties - ad valorem, specific, alternative, compound, anti-dumping.
- c) Import charges - variable, temporary, compensatory.

Non tariff barriers

- a) Quota and trade controls.
- b) Discriminatory Government and private procurement policies.
- c) Restrictive customs procedures.
- d) Selective monetary control and discriminatory exchange rate policies.
- e) Restrictive administrative and technical regulations.

3. Students may be free to select any tariff on non tariff example or any other form. An excellent example would be the regulatory framework imposed by the EU on the import of horticultural produce from developing countries. These include hygiene standards, (phyto sanitary requirements), quality and size standards, certificates of origin, packaging standards.

Exercise 4.1 Algodon International 1

It was November 4, the first week of LATINA's major export season of raw cotton (see Annex 1). Mr. Pablo Funtanet, partner and principal trader in the firm looked pensively out the 7th floor window of the Stock Exchange Building of Latina where the firm's office were located. He had just returned from a cotton trading seminar in Geneva, and wondered how he could apply some new ideas he had learned. This was the first private trading season for his firm since the government's new policy of deregulation on 1 July 1988, in which the firm could serve customers for its own account. Trading positions had to be taken and risks calculated. He knew that the

first free trading season was also the time to establish a respectable market share against Latina's competitors as well as against cotton suppliers outside Latina. Latina's principal shipping months corresponded with those of India, Turkey, the United States (California and Arizona) and Pakistan which tended to flood the market at times.

Cotton prices had shown a downward trend for over 12 months. They had peaked at \$0.86 a pound in mid 1987 but had since fallen. Today's average spot price was \$0.55 a pound. (See Annex 2). What marketing strategies should be considered.

Country profile

Thanks to remarkable increases in yields since a major crop failure in 1986/87, Latina has established itself as one of the growing producers in the region. The country produced just over 8 million bales of 480 pounds each in 1987/88 with a forecast for 1988/89 of 11.2 million bales. (See Annex 3).

At the same time new strains and the installations of lint-cleaners have resulted in improvement in both staple and grade. The increase in production has been the result of an increase in sowing area as well as improvement in availability of fertilizers and pesticides and in farming techniques. With the increase in production, the domestic consumption also increased substantially from 5.6 million bales in 1985 to 6.2 million in 1988. The increase in local consumption is due to vigorous expansion of textile spinning sector. Most available new lint crop in 1988/89 is rapidly being taken up by the domestic mills and stocks are not being accumulated. An active demand for longer cotton reflects the short supply of certain cotton qualities during the month of November 1988.

But despite a substantial increase in domestic consumption, the country continued to produce more cotton than the local market could absorb. The task of exporting the surpluses to foreign markets increased therefore each year. The total exportable surplus during the year 1987/88 was 4 million bales, all of which was exported.

(Case prepared by ITC/UNCTAD/GATT Training Manual on Cotton Trading Operation Geneva 1989)

Latina benefits from extended planting and harvesting periods, which are due to a great variety in climate and distances from the various growing years

Some cotton is harvested as early as October and as late as January with this production mainly moving to domestic mills.

Most of the cotton in Latina is fully irrigated. Yields in such areas are around 2 bales per acre and more. Rain grown or semi-irrigated areas yield less.

Latina normally produces high grade crop with staple length of 1.1/16" to 1.3/32". In the Southern area cotton of 1.5/32" and 1.3/16" staple is grown.

The bulk of Latina cotton is still hand-picked but machine-picking is on the increase. All cotton is saw-ginned.

On 28 January 1963, the government of Latina passed a decree centralizing all cotton marketing. The government from that date on assumed the responsibility of all the export marketing of cotton for which purpose the Cotton Export Corporation of Latina (i.e. "the Corporation") was created.

The nationalization of the cotton sector had affected the private sector seriously as its activity was drastically scaled down. Cotton were only allowed to act as export agents for the Corporation rather than acting as merchants which required much more trading skills. The nationalization policy was a serious blow to the private sector, especially for those merchants, like Algodon International, which over the

years had concentrated on exporting.

Since 1 July 1988, the government has de-regulated the cotton export sector, allowing private enterprises to export raw cotton side by side with the Corporation. However, the de-control has been done with the re-introduction of the Minimum Export Price and Compulsory Contract Registration. The State Bank of Latina announces daily the minimum export price of the base cotton on FOB basis. The bank, in order to calculate the base price, uses world averages of the previous day. Export sales are only allowed to be consummated on the prevailing minimum export price of that day. The minimum export price policy has been re-introduced in order to ensure that no one can export Latina cotton below the prevalent world level.

Algodon International

The company was founded in 1959 and has been primarily involved with the trading of cotton. Before the de-regulation of the cotton export, Algodon International defined its mission as that of export selling for the Corporation since there was no other way of doing business. The company would take a standard commission, and profit and growth of the company was limited. Quite often, the business was simple and it merely resulted "in order taking and execution" on behalf of the Corporation. In order to boost profits the company entered the business of "resident buying". Algodon International would buy on behalf of foreign customers the type of cotton they desired. Instead of earning a commission through a selling service, paid by the Corporation, the company switched and earned through the provision of buying services. Being a resident buyer provided the company with some additional autonomy and flexibility.

More importantly, the knowledge gained in residence buying had given the company an added experience of knowing the requirements of cotton end-users, i.e., spinners, more precisely. Resident buying forced the company also to pay close attention to the crop developments in Latina. Foreign customers wanted to stay informed about the availability of the Latina quantity and quality of cotton in order to be able to buy correctly.

Besides providing its foreign clientele with information about the Latina cotton situation, a growing demand has occurred in recent years to inform them on the world market developments, including the interpretation of New York cotton figures. The firm would provide customers with opinion on cotton quality and quantity availability, appropriate buying price levels, negotiations of prices, future trend prices, and on shipment periods. If, for instance Algodon International would recommend to buy a lot of Indian cotton, it would equally charge a commission, as if it were a Latina transaction. If commissions were charged on foreign cotton, the firm would act more as a consultant than as a buying agent.

Since 1 July 1988, Algodon International has again redefined its business mission and is now acting as an export merchant. The international merchandising of cotton provides much more opportunity to increase profits than the previous commission based roles of export or buying agents. By acting as a merchant, the firm buys for its own account and can price its cotton at what the market will bear, as long as the price is above government set minimum price. Never knowing what price movements are going to be, Algodon International has to consider hedging operations combined with option trading.

The risk of a merchant is one of being the owner of the cotton with all the responsibilities of storing, transporting, financing and most of all, understanding the international cotton trade.

Problem areas for Algodon International in its trading operations

Algodon International as a private trader is facing a number of problems. Some of

them are temporary which could be phased out in due course, but some are likely to remain for some time. The major problems can be summarised as follows

a) Lack of experienced personnel

Since the export trade of raw cotton has been centralized in one organisation for more than 15 years, the development process of professional staff has been sharply reduced. Experienced personnel in the cotton business such as professionals who understand the trading in futures and options as well as marketing, documentation and transportation, are not adequately available. Market penetration and Algodon International's competitive positioning will be severely handicapped due to the lack of knowledge people. Since no training institute in international trade exists in Latina, no immediate remedy to this problem can be envisaged.

b) Bank credit

Before de-regulation of the cotton export sector, the commercial banks were financing the Corporation against government guarantees without hesitancy. All credit requirements were met without any consideration of probability, collateral security or financial structure of the organization. The end result has been that the banks have also neglected to train professional staff who understand the international cotton business.

The cotton business climate since 1 July 1988, has introduced, through the presence of the private sector, a large degree of risk which has to be assessed before it can extend credit. Instead, the banks require collateral security or pledges the stock. The difficulty of obtaining credit for the cotton traders, especially for the small and medium size firms, has not been an exception for Algodon International. Large amounts of credit are required for cotton operations. Sometimes Algodon International is able to provide collateral through equitable security or by pledging cotton stock.

c) Problems of non-performance of cotton importers

Increasingly, unscrupulous foreign buyers have not respected agreed upon contracts by failing to perform when lower spot prices offered them large savings. It is a problem which can cause considerable losses for cotton exporters. Non-performers of contracts have to be explained to the State Bank of Latina where the contract was filed. The bank can keep the exporter responsible for non-performance if the problem reoccurs. The exporter can resort to the Liverpool Cotton Exchange for technical arbitration but in some countries the implementation of the arbitration settlement has been disappointing.

d) The minimum export price policy

The introduction by the State Bank of Latina of the minimum export policy seriously limits price competition against foreign traders. Although the minimum price is established on the basis of world parity, it will be difficult to penetrate new market segments. The daily price announced by the central bank is based on the previous day's averages. As the price trend has been downwards since mid-1988, "yesterday's" average tends to lag with "today's" downward price trends. Further, the objective of new merchant-entrants in the cotton trade is build up "market share" during the first years of operation. As potentially new customers tend to be slow to change supply sources, a competitive strategy would be to apply penetration pricing by cutting one's profit margin and set a price below the competitor's price level. With the State Bank imposed pricing policy it would be difficult for Algodon International to build new clientele through the applying of a penetration pricing policy.

Formulating a marketing strategy

Mr. Funtanet realized that the formulation of a marketing strategy for his firm was one of his utmost priorities. Already some growing areas had started to ship and as a merchant he had to take a stock position or sell short. The following elements had to be considered: market target, channel mix, stock position, pricing and promotion strategies.

Market target and channel mix

Mr Funtanet realized that he could buy cotton for different customers who may have different objectives for using the cotton. His most logical target would be the spinner. When his firm operated as a resident buying agent, a network of spinners had been developed and his firm had become informed about the specific criteria each customer looked for. Customer profiles had been developed and computerized.

One disadvantage of buying for the spinners was the shrinkage of the market size of the number of spinners. In Europe, Japan and the USA, the textile industry was going through a concentration and the number of spinners was declining every month. Most of the clients Algodon International served as a resident buyer were in fact the smaller spinners who are most in need of commercial intelligence.

The bigger spinners, where the future is concentrated, were served by the international merchants located in places such as New York, London or Geneva. If Algodon International would target international merchants as its future clientele, price competition rather than non-price competition would be the firm's pricing policy. The international merchant buys primarily on price and very little loyalty can be gained. Its profits objectives would have to be more modest as its mark-up would have to be halved. Only through merchandising large volumes could his firm maintain its profit objectives,

Stock position

A quantitative sales forecast should be the basis of judging his inventory requirements for the next shipping season. Various factors played a role in deciding on his purchasing needs. The most indicative index would be his past sales performance as a cotton merchant. Being a newcomer in the trade he decided that as an objective he must sell at least last years' export volume of 130,000 bales of 480 lbs each, when his firm operated as a resident buyer. As a resident buyer, however, his risk was very limited, as he merely executed orders. The spinner made the decisions. As a merchant, he would be fully exposed to all forces in the market place, including competition, changing demand and weather. Political changes were very likely through new allocation criteria brought about through the Multi-Fibre Agreement. His greatest concern was his financial position. How much credit would his bank provide him? His bales position would have to be either "long" or "short", depending on the credit availability. He figured that he could finance 25 per cent of his sales objective on his own. He could match his own resources with another 25 per cent with credit. As a newcomer in the trade he felt that ample credit availability to his customers would be a competitive requirement. With the provision of credit to his clientele his working capital turnover would most likely be on the low side and not exceed four. The remaining questions pertained to his customer's delivery requirements. The exporting season ran from August through January and on average he could anticipate to deliver 16 per cent of his sales forecast each month. In order to guarantee availability of cotton to his foreign customers Mr. Funtanet realized that he had to "cover" his requirement. How much should he buy on the spot and how much for future delivery? Further, should he hedge and what advantages would there be in combining hedging with options trading? He started reading the November 3 cotton supply outlook (see Annex 4) to increase his understanding of future market conditions.

Pricing

The minimum export price for 1988/89 crop lint was set by the State Bank on 4 November 1988 at \$0.4750 per lb FOB, and that for 1987/88 crop remnants at \$0.4525. The respective values a week ago were \$0.4825 and \$0.46.

Mr. Funtanet noticed that CIF prices in Europe had increased over last week and over last month but were still almost \$0.20 below last year's (see Annex 5). Polyester prices had all increased over last year's with China (Taiwan Province) quoting, due to its recent re-evaluation, \$0.73 a pound compared to \$0.525 a year ago (see Annex 6). New York future prices in November showed a slight decrease compared with the quotations listed in the month of October. When reflecting on the above statistics and calculating a pricing strategy, his eye caught an opinion about the state of the textile market abroad (see annex 7) and the futures and options closing for the day (see annexes 8 and 9).

Promotion

Mr. Funtanet realized that if his firm continued to serve the spinners, he had to expand his customer mix and try to gain acceptance from some large spinning mills. The "missionary" type of selling activities would result in promoting his firm as a reliable future supplier. He wondered if using sales agents would be appropriate for the initial sales push. Cultivating new customers required a lot of time without sales guarantee. Sales agents might be more appropriate as "order takers", after initial confidence had been established. Using his own salesmen would require extensive training as very few knowledgeable commercial cotton people were left in Latina. If he utilized agents in the early stages, he wondered how difficult it would be to terminate an agent agreement after some time.

Instead of using the "sales push", he also wondered if he could substitute a "sales pull" strategy of trade advertising during the take-off period of his firm. This would give him time to train his sales people and switch to a push-pull strategy after the first trading cycle. He realized a lot depended on the future cotton market conditions and the competitiveness of the services his firm could deliver.

Tasks

- a) In what business is Algodon International?
- b) What are Algodon International's operational objectives for implementing the mission during the next fiscal year?
- c) What political, economic, competitive, social, technological, demographic and ecological changes are taking place in the international cotton market, which would affect the mission and objectives of Algodon International?
- d) What are the strengths and weaknesses of Algodon International to implement its mission and objectives under changing market conditions?
- e) What is the conflict between Algodon International's combined mission and objectives and the conclusions reached in the environmental analysis and the company's audit?
- f) What strategic solutions are most appropriate for Algodon International to solve the principle problem?
- g) What actions must be considered in order to implement the strategic plan?

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Chapter 5: Identifying Market Opportunities Through Marketing Information Systems And Research

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Having looked at the major elements in the international marketing environment, this section is concerned with identifying market opportunities. For many agricultural products which are exported from African countries much of this involves the use of "outsiders" - agents, for example, who know the foreign market opportunities. The Kenyan horticultural industry was developed partly because of the Asians who had left Kenya and settled in Britain asking their Kenyan relatives to send produce to the UK. In Zimbabwe, the export flower industry is heavily dependent on agents and contacts in the Netherlands who know the system. However, as organisations mature in their international stance, more global opportunities will be sought out. Whilst SADC or PTA may offer export opportunities, these are not substantial markets. Nearly 80% of Zimbabwe's exports are with South Africa and Europe, where major volumes can be obtained. However, as seen earlier, these markets may change with changing political stances, so it may be that Zimbabwe has to look further afield. This will involve uncertainty because the more unfamiliar the new opportunities sought, the greater the perceived risk of success.

Chapter Objectives

The objectives of this chapter are:

- To give an understanding of the way a global information system can help reduce uncertainty in decision making
- To describe the process of global marketing research
- To show the problems associated with conducting global marketing research.

Structure Of The Chapter

The chapter starts with identifying the types and categories of information which are useful in marketing decision making on a global scale and discusses the two main ways of getting information by surveillance or by research. Details are given on

some of the sources of information available to marketers. The chapter then describes in some detail the process of global marketing research and highlights the dangers and pitfalls in the process.

Uncertainty

In international marketing, the marketer is faced with a dilemma of having too much data and too little information. There is plenty of global data from sources like the World Bank, but often a lack of specific information on countries and markets. In helping to reduce uncertainty around decision making, precise information is the key, getting it is quite another thing.

Whilst searching for opportunities globally, uncertainties will arise due to four main factors: lack of knowledge of the existence of possible new market alternatives, the conditions internal and external to the firm which will determine the consequences of a new alternative, what consequences these conditions when known may have for the firm, and how these consequences may be expressed in relevant terms of goal fulfilment. Uncertainty arises due to the time lapse between the decision and the outcome of the action decided on. Carlson (1975)¹ also believes that uncertainty increases with the degree of "foreignness" of the place of outcome, the cost of information and the learning effect, that is, when entering a foreign market knowledge of it builds slowly, usually by experience and its attendant uncertainty.

When marketing domestically the system is fairly easy to learn. When crossing global boundaries the whole process is exaggerated by necessary paperwork, exchange rates, cash flows and transportation problems to name but a few. This uncertainty gives rise to the need for information.

Table 5.1 Specific information

Marketing decision	Marketing intelligence
Go international or remain domestic	Assessment of global market and firm's potential share in it, in view of local and international competition, compared to domestic opportunities.
Which markets to enter	A ranking of world markets according to market potential, local competition and the political situation.
How to enter target markets	Size of markets, international trade barriers, transport costs, local competition, government requirements and political stability.
How to market in target markets	For each market, buyer behaviour, competitive practice, distribution channels, media, company experience

Elements of the information system

The following constitute the elements of the global information system. Data may be specific or general or both and used for decisions on whether to enter markets or not, in what degree and what emphasis in terms of the marketing mix. General information includes data on the following:

- Economic - rate of growth of GNP, level of inflation, incomes
- Social - people, demographics, culture, subculture
- Political - risk, instability, attitudes to "foreigners"
- Technology - current, rate of change, infrastructure
- Resources - money, manpower, materials, acquisitions, joint ventures
- Fiscal - taxes, exchange rates
- Institutions - money markets
- Managerial - funds

Specific information may include the following (see table 5.1)¹:

Table 5.2 Categories for a global intelligence system

1. Market information	
Market statistics and potential	Consumer attitudes and behaviour, spending power, per capita income
Physical features - infrastructure, communications, money markets, banks etc.	Channels of distribution - type, availability, effectiveness
Media - availability, effectiveness and cost	Information sources - quality, availability and cost
Resources - money, human, materials (availability, cost, quality, development)	
2. Environmental factors	
Economic factors	
Economic - rate of growth, structure, conduct, capital, economic blocs, (SADC), GNP, GDP, NI	Social - customs, culture, attitudes, preferences
Political/Legal - laws, regulations, investment, "climate", government ideology, stability.	Technology - state, trends development
Competition - type, structure, operations, strategy plans, programmes, acquisitions, mergers	Trading partner(s)
Management capability	Foreign embassies, NGOs and other developmental thrust
3. Financial/Exchange	
Balance of payments	
Terms of access - quotas, tariffs, duties etc	Inflation rates
Monetary and fiscal policy	Expectations - economists, bankers, business people
Commodity exchanges	Currency alterations and movements, controls and regulations
International competitors	Taxes - inflation, incentives, dividends tax rules, earnings, repatriation of profits
Spot, forward market	Intervention by outside bodies e.g. IMF or World Bank and their effect on policy

The information required could be put into a subject agenda list with specific data requirements (see table 5.2)

Scanning modes: surveillance and search

Once the agenda has been set, data collection or scanning can be done by two methods: surveillance or search. In surveillance the scanner is geared to collect relevant information which crosses his/her scanning attention field, in search the scanner is deliberately seeking information either informally or formally. Most organisations collect information through surveillance, primarily due to time restraints.

Because detailed market scanning can be expensive, many writers suggest the process be split into two stages, a preliminary screen to assess basic alternatives, then, once through this test, more detailed treatment. Hibbert (1985)² calls the first phase an assessment of market ecology giving general data about a country - its political and demographic stance for example. This may lead to the avoidance of costly mistakes. A micro assessment, for example, of Zimbabwe may reveal an opportunity for imported South African wines, but the scope may be limited when one looks at the big picture of population and disposable income. Albaum et al³ (1989) describe an approach to the preliminary screening of foreign markets - the "expansive" and "contractible" methods.

The first gives a gradual expansion from those markets which approximate in cultural and geographic terms to one's own market. "Contractible" methods are more extensive in scope. This approach scans all markets, then narrows them down through applying various criteria. The most attractive are then subject to detailed analysis. Criteria can be self developed or using the methods like the Business Environment Risk Index (Haner, 1972)⁴. This assesses over forty countries on dimensions like political stability, monetary inflation, legal system etc. on a scale of 0 (unacceptable) to 4 (superior conditions).

Contractible scanning methods are superior to expansive methods as they are less likely to overlook market opportunities and to employ standard evaluation instruments. They are, however, very resource intensive and a compromise may be worked out between the two methods. Expansive methods have the advantage of flexibility, the burden of market acceptability rating and are less risky. However, their main disadvantages are "complacency" and missed opportunities to competitors.

Whichever method of data collection is employed, it will affect the global strategy adopted, for example, "contractible" methods favour global strategies. The outcome of the first phase (market screening) will serve to eliminate the two risk markets, then those which are selected after screening will be subjected to a product/market screening phase. This will entail more detailed research on market size, trends, prices etc. Wind and Douglas (1981)⁵ suggest that market attractiveness should be assessed at two levels - on a stand alone basis and in the light of other elements of the company's activities. A "portfolio" approach would be useful here. Also the company should assess its own strengths and weaknesses and the risk/returns decisions should transcend the focus on absolute costs and look at opportunity costs of servicing this product market rather than other product markets. (Attention is drawn to the reference section where general surveillance data is exemplified and specific information on products markets is given in an agricultural context).

Sources of global information

Sources of information include documented sources, human resources or perceived sources.

Documented sources

In recent years there has been an information explosion, especially in the documented, or "secondary" source area. (Primary data collection will be dealt with later). Various sources of documented data are available including:

i) Governments

- Central office of information (UK)
- Central Statistical Office (Zimbabwe)
- EU documentation centres
- Boards of trade, or Ministry of Commerce

ii) International bodies

- the UN Statistical Yearbook
- World Bank - general statistics
- OECD - general statistics
- ITC - Geneva (information service)

iii) Business, trade, professional

- Chambers of Commerce
- Institute of Marketing

- American Management Association
- The Market Research Society

iv) Foreign embassies, trade missions

- Commercial newspapers
- Financial agencies - Price Waterhouse
- Kompas Register of companies
- Economist Intelligence Unit (UK)

v) Other

- Libraries, universities, colleges.

There are excellent sources of overseas data, in the horticultural industry, giving information on markets, prices and produce required for those wishing to sell into Europe. An example of these are given below:

- International Trade Centre (ITC) Geneva
- COLEACP, Paris
- Natural Resource Institute (NRI) UK
- GTZ, Germany
- CBI, Netherlands
- IMPOD, Sweden
- Chambers of commerce
- Food and Agriculture Organization of the United Nations

Secondary data from such sources are relatively cheap to obtain and readily available. However the disadvantages are legion.

- The data may have been collected and manipulated for a specific use, therefore it may be incomplete, ambiguous or out of context.
- Data may be compiled in different ways in different countries making comparability difficult. For example, in Germany consumer expenditures are estimated largely on the basis of turnover tax receipts, in the UK they are measured on tax receipts plus household surveys and production sources. Similarly with GNP measures, it only reflects average health per head of population and not how it is dispersed. As seen earlier, bimodalities are normal, thus introducing bias. GNP may be understated for political reasons and may not reflect education (i.e. wealth based on minerals). Also infrastructure may reflect channelled funds, say for tourism, rather than society as a whole - typical of many African countries.
- Data may be corrupted by methodological and interpretive problems, for example, definitional error, sampling error, section error, non response error, language, social organisations, trained workers, etc.
- Data may be nonexistent, unreliable or incomplete thus making inter country comparisons very difficult
- Data may be inflated or deflated for political purposes

Data from documented sources must, therefore, be treated with care and caution.

Human sources

These include executives based abroad, specific "look see" missions which are very important, and sales people, customers, suppliers, distributors, and government

officials. This information is "internal" to the firm as opposed to documentary sources which are generally external. Most of the information is gathered on a face to face basis.

Perception sources

These are "sensory" sources of information, for example, if one heard of the construction of a new cold store at an airport, it could mean that the industry which produces products for airport store is planning to export in quantity. This could give rise to a market opportunity for another potential exporter of the same produce. Direct perception could be achieved by in country visits, where it would be possible to exercise all the sensory receptors sight, taste, touch, intuition, hearing and smell. Often there is no substitute to "feeling out" a situation. Participation in exhibitions, discussions with importing organisations and participation in Government working parties can all be useful sources of data.

Marketing research

Should secondary data be insufficient to meet all needs (it seldom is!!) then it may be necessary to conduct marketing research (the "search" scanning mode). There are three modes of search:

- Investigation - short term, specific data search
- Research - formally organized effort to acquire specific information
- Continuous - formally gathering longitudinal data on a continuous basis using panels of respondents

Whilst there are differences in approach, which will be discussed shortly, as in domestic research one has to be clear on the following:

- a) Objectives - why is the data being gathered, for what purpose and what are the proposed sources
- b) Development of ideas or hunches on the procedure
- c) Hypothesis development
- d) Research designs, experiments, observations, simulations, descriptive research
- e) Questionnaire design
- f) Data collection method - mail, telephone, interview, observations
- g) Sample size and selection
- h) Data collection methodology and supervision
- i) Analysis and report writing

We have already seen some of the difficulties associated with the comparability of data. There is also the problem of assessing demand. Market demand can be existing - served by existing supplies, latent - demand which would be expressed if a product was offered to customers at an acceptable price, or incipient - demand which will emerge if present trends continue. The skill is in assessing which demand type is current or about to break.

Assessing market opportunity requires a measure of both the overall size of a market and the competitive conditions in the market. In assessing existing demand it is a question of finding out a differential advantage for your product and marketing that differential. In the latent demand situation it is a question of identifying

opportunity and launching products rather than competitiveness. In incipient demand situations it is a question of looking at the market and matching products to potential. This could be the case in say exotic fruit marketing to developed countries. It is on seeing the product that the market reacts.

The research process

The research process has been covered comprehensively in the text on "marketing management" in this series, and, therefore it is not necessary to repeat the detail here. However, in international marketing research the following should be borne in mind.

a) Basic rules

Before beginning research ask some basic questions like what information is needed, where can it be obtained, when, why and at what cost? Start with desk research, identifying the type of overseas sources, know where to look and do not assume that the information is comparable or accurate if secondary in nature.

b) Primary surveys

In carrying out primary surveys it is essential to be familiar with the process involved. Of paramount importance are the time and cost elements. It may be very desirable to obtain data to the n'th degree, but in doing so, it is all too easy to run up a large bill, especially in international research.

Attention has to be paid to:

The research design: The design can be descriptive, experimental, observational or simulation. international research is of a descriptive nature or observational. The ability to conduct simulations or experiments depends on the sophistication of the market and the research facilities available.

Questionnaire design: Whilst in domestic research, questionnaires can be "closed" or "open ended". Unless trained staff can be found, and the nuances of translation can be mastered, "closed" questionnaires are mainly the norm in international research. The form of data gathered by "closed" questionnaire is mainly of a behavioural or quantitative nature. The form of data gathered by "open ended" research is qualitative.

Attention has to be paid to length, translation, ease of response and method of questionnaire return. The rate of return in international research is often as low as 6% as it is very difficult to give incentives to the respondent. Covering letters should be succinct and written in the language and idiom of the country of destination. Marketers can often use clever devices to increase the response rates, for example in France, a red dot on the envelope denotes an "official" letter.

Questionnaires may contain ranking and rating questions (scaled questionnaires) and these can only be used if the respondent is fully aware of what is being asked. Often, in translation, the nuances and differences of interpretation may make scaling techniques difficult to utilise.

Data collection method: Data collection can be done in a variety of ways including personal interview, mail, telephone and observation (either mechanical or human.) Each method has its own merits and demerits. Personal interview allows the building of a relationship between interviewer and interviewee, and allows the "explanation" and "showing".

This is particularly important when conducting group discussions or carrying out in

depth-research rather than one to one personal interviews. The gathering of "motivational" or "qualitative" data by group discussions will depend to a large extent on the availability of trained interviewees in the researched country.

Mail methods allow a longer questionnaire with considered response, but suffers from non response and interpretive problems. The telephone is quick but expensive and in many countries getting to the respondent may be difficult due to lack of a telephone infrastructure. Observation may not be always possible due to cultural blockages. In the end, time and cost elements often dictate the method, but generally mail and personal methods are the most widely used.

Sample size and selection: Samples can either be probabilistic or non probabilistic (random and non-random). Random samples can either be simple non-random or multi-random (stratified). Non random samples include quotas, selective or judgemental methods. With probabilistic samples it is possible to be more sophisticated in the analysis by using parametric methods of analysis or project results with greater statistical reliability. With non random sampling techniques, descriptive statistics are more appropriate. In agricultural marketing, rapid rural surveys are a well used method, which are basically a mix of the two sampling techniques. In international research random sampling can be very expensive.

Another important decision is the size of sample. Again, the larger the sample size and more difficult it is to obtain (if randomly chosen) the higher the cost will be. Whilst quota sampling may be cheaper there is the possibility that bias may exist in the sample because of inaccurate prior assumptions concerning population or because the field workers select the respondents, unwittingly, in a biased way.

A quota sample is chosen by taking known characteristics of a universe and including in the sample respondents as they proportionately occur in the known universe. For example if the quota was on a male/female age basis, it is possible to stratify and select the quota as follows: -

Population 20,000													
Male 45% (9000)							Female 55% (11000)						
	15%	10%	10%	15%	10%	40%		15%	10%	10%	15%	10%	40%
Age	0-16	16-24	25-34	35-44	45-54	55+	Age	0-16	16-24	25-34	35-44	45-54	55+
Number	1350	900	900	1350	900	3600	Number	1650	1100	1100	1650	1100	4400

The sample would firstly include 45% male and 55% female. The male and female split will then be in proportion to the age groupings, according to the actual population percentages. So the final quota sample will be according to sex and age.

Suppose a seller of tractors wishes to measure a population with respect to the percentage. It wishes the sample to be accurate to within 5% points and to be 95% confident of this accuracy.

It must first consider the standard error of a percentage given by the following formula

$$SE(p) = \sqrt{\frac{(p)(q)}{n}}$$

It assumes on guessing, that the likely percentage of ownership is 30%.

Then,

$$SE(p) = \sqrt{\frac{(30)(70)}{n}}$$

But, (SE(p) must equal 5% (the level of accuracy required)

$$i.e. \quad 5\% = \sqrt{\frac{(30)(70)}{n}}$$

$$25\% = \frac{4[(30)(70)]}{n}$$

$$n = \frac{4[(30)(70)]}{25}$$

$$\frac{8400}{25} = 336$$

The firm requires to take a sample of, say, 340 (rounding up). Generally, then, for percentages, the sample size may be calculated using:

$$n = \frac{4(p)(q)}{(SE)^2}$$

for accuracy at the 95% level.

Analytical techniques for researching international market: Besides the usual descriptive data analysis methods, there are a number of other techniques which can be used in analysing market potential. "Usual" methods include univariate methods (mean, median, mode, standard deviation), bivariate methods (regression, correlation, cross tabulations), and multi variate methods (including multiple regression, cluster analysis, multiple factor indices and multidimensional scaling).

- Industrial growth patterns: may give an insight into market demand. Statistics can be obtained from in country sources.
- Income elasticity measurements: Describe the relationship between demand for goods and changes in income. This could, for example, show what could happen to the demand for basic agricultural products, if income rises. In theory, it should decline.
- Regional lead-lag analysis predicts what could happen to the pattern of demand in a considered country based on the pattern of demand in a leading country. If Zimbabwe, for example, introduces a new form of tobacco drying, it is likely the other tobacco producing countries around it will do the same.
- When it is difficult to obtain data, resourceful ways are needed to estimate demand. One of these methods is analogy. There are two ways of using this technique, one is by cross sectional comparison, the other by time series analysis. Cross sectional analysis assumes that a factor which correlates with demand in country A could be translated to country B. Time analysis is a similar technique but adds the time dimension, very similar to the estimate of the stage in the international life cycle. One USA chemical company found that soup consumption was the only reliable index forecasting sales in Asia. There are limitations to the

analysis. These include whether the two countries can really be compared, whether technical or social developments have led to a leapfrogging of the product under consideration, and whether the difference between potential and actual demand (which could depend on other factors like price, adaptability etc.) may subsume analogy.

- **Comparative analysis:** Comparative analysis, say between countries on intracompany, intercompany, national - subnational markets can be useful for estimating potential demand. It is not unreasonable, say, to compare Zambia and Tanzania.
- **Cluster analysis:** Computer packages exist to cluster similarities and differences between countries which may show factors which could be common and therefore potential markets. Such packages include multidimensional or clustering techniques.
- **Multiple Factor Indices:** MFIs indirectly measure potential demand, using variables that either intuition or statistical analysis suggest can be closely correlated with the potential demand for the product under review. Variables should be restricted to those which relate to product demand and these may be GNP, net national income or total population. In assessing the demand for coffee appliances, for example, an index which includes coffee drinkers and type of coffee consumed would be useful.
- **Regression analysis:** A very useful and powerful tool. The procedure selects the independent variable that accounts for the most variance in the dependent variable, then the variable that accounts for the remaining variance etc. Often multiple regression is needed as a single variable will not do. Predictions are often made on market demand for products based on what would happen if GNP were increased. As seen earlier, an increase in GNP could be good for luxury or durable goods but not basic commodities. However, high GNP per capita, may be a good predictor of, say, exotic high value horticultural produce, out of season produce or technological advanced agricultural machinery.

Location of research facility

It is always a burning question as to where to locate the research, in-country or "at home". In general the more "distant" the country, the better it is to locate the research in-country. Surveillance techniques could, on the other hand, be mainly conducted at home. The following case shows what happened to the Tanzanian sisal industry due, in part, to the lack of a global intelligence facility.

Case 5.1 Tanzanian Sisal

The once world leading Tanzanian Sisal Industry is a classic example of failure due to its inability to monitor market trends, through lack of an adequate intelligence system, as well as many, in-country problems. Basically, it failed to take account of the shrink in demand for sisal fibre in Western Europe. Many sisal mills were being dosed because of the fact that they were old and labour intensive (hence uneconomic), and the: disintegration of markets for sisal fibre in Eastern Europe due to that region's political crises. Sisal was brought into Tanzania by a German Agronomist, Dr. Richard Hingdorf in 1892 and the first estates were established in Tanga and Morogoro regions. After World War I, most estates were sold to Greeks, Swiss, Dutch, British and Asians, although a number of Germans re-acquired their estates from 1926 onwards. From that time, up to and after World War I, Tanzania remained the world's leader in both production and exports.

In the early 60's sisal was Tanzania's largest export, accounting for over a quarter of foreign exchange. Production was around 200 000 - 230 000 tonnes per annum. However, during the 70's and 80's production dropped dramatically. In 1970's production was at 202 000

tonnes, in 1979 it was 81000 tonnes, by 1985 production was at 32 000 tonnes, a drop of 87% from the peak of 230 000 tonnes in 1964. Since then production has stagnated at around 30 000 - 33 000 tonnes per annum. Needless to say Tanzania has long since ceased to be the number one world producer and its export earnings fallen well behind that of coffee, cotton tea, tobacco and cashewnuts. Since 1985 Tanzania has been producing 7 - 9% of the world's sisal fibre exports and is in fourth place behind Brazil, Morocco and Kenya.

The decline in sisal production came in two stages, an initial stage up to 1987 and then 1990 onwards. Both internal and external factors account for the decline. In the initial stage, the internal factors included the nationalisation of some of the sisal estates in the late 1960's, an overvalued exchange rate, high export taxes and a controlled single channel marketing system. In the second stage liquidity problems affected production. However, the external factors in the two periods had the most significant effect and show clearly the consequences of an ill prepared intelligence system. In the initial stage up to 1987 Tanzania experienced declining world prices of sisal fibre and the introduction of a substitute, cheap synthetic fibre -polypropylene twines. These factors led to low investment in replanting, leaf transport facilities and factory machines at the estate level. In the second stage of the 1990's onwards, the collapse of the former USSR, one of the major markets for Tanzania sisal fibre and changing world demand were the major factors. An inability to pick up these changes in demand by the intelligence system was a major player in the industry collapse. However, there is a ray of hope with a new swing worldwide to more "greener" and more environmentally friendly products. Tanzania sisal could make a comeback.⁶

Special problems in international marketing research

As well as the difficulties associated with secondary data described earlier, there are a number of other problems connected with obtaining data in the global context. These are as follows:

- Multiple markets need to be considered each with unique characteristics, availability of data and research services
- Many markets are small and do not reflect the cost of obtaining data for such a small potential
- Methodological difficulties may be encountered like nuances of language, interpretation, difficulty of fieldwork supervision, cheating, data analysis difficulties (lack of computer technology)
- Infrastructure difficulties - lack of telephones, roads, transport, respondent locations and,
- Cultural difficulties - reluctance to talk to strangers, inability to talk to women or children, legal constraints on data collection/transmission.

Many of these facets apply more to developing than developed countries. However using a variety of methods, outlined in the section, a lot of them can be ingeniously overcome.

Whilst the gathering of information in the international context is fraught with difficulties, without it the marketer would be planning in the dark. The two most important modes of scanning are surveillance and search, each giving data of a general or specific kind, invaluable to the strategy formulation process. In all decisions whether to obtain data or not, costs versus benefits have to be considered carefully.

Chapter Summary

Such is the uncertainty surrounding doing business globally, that without some form of intelligence system, organisations will most certainly founder. Whether the

organisation obtains information itself or through the help of outside agencies, it must first determine the purpose for which the information is to be used, then how it is to be collected and analysed, taking into account cost and time considerations. It is often cheaper and less time consuming to use already available published data, but this can be too general, dated and not in the form required. In this case primary data collection may be required, involving decisions on the research design, method of data collection, sample type, and size and method of analysis.

Collecting intelligence data internationally can be fraught with hidden dangers including lack of access to respondents and misinterpretation due to cultural differences.

Key Terms

Cluster analysis	Information system	Search
Comparative analysis	Multiple factor indices	Secondary data
Demand pattern analysis	Primary data	Surveillance
Income elasticity measurements	Regression analysis	

Review Question

1. Take a product/market of your choice. Describe fully the process involved in attempting to assess the market potential and developing a marketing strategy for that product/market in any country of your choice. The product maybe an import or an export.

Review Question Answers

This question is an attempt to assess the student's ability to synthesize all the elements involved in international marketing research into a coherent marketing proposal. The tutor should look for the following in the students' answers:

- i) Understanding of the global research process
- ii) Application to assessing the potential and developing the marketing strategy for the product/market/country choice and,
- iii) Pitfalls and problems in the process.

a) Research process

- i) Definition of objectives
- ii) Sources of information - secondary (published), primary (human, perceptive)

If secondary sources cannot give the answer, then a description of primary sources are needed viz:

- iii) Survey methodology experiment, description, observation.
- iv) Data collection form - questionnaire
- v) Sample and sample size
- vi) Data collection method - interview (personal, telephone, mail), - observation
- vii) A data analysis technique (s)
- viii) Report.

b) Application - assessing potential - either by inference or observation and the basis on which the potential assessment is put forward i.e. population size, GNP/capita, incomes and so on.

Marketing strategy - basis for choice of target market (s) and marketing mix - product, price, promotion, place, people. Particular attention should be paid to the "environmental" factors i.e. political framework, culture, economic situation, legal requirements, distribution system and other market or institutional factors including finance, credit, insurance, transport etc.

Pitfalls and problems

- ii) Data problems - validity, availability, completeness, currency, methods of reporting, consistency, misinterpretation
- ii) Unique characteristics of markets and problems of self reference and perceptions
- iii) Costs and time in collection of data, setting up the marketing plan and carrying it out
- iv) Methodological difficulties - language, interpretation etc.
- v) Infrastructural difficulties - lack of telephones, roads etc
- vi) Cultural differences and difficulties
- vii) Availability or otherwise of marketing institutions, supporting and ancillary institutions
- viii) Problems of reaching target market with marketing mix i.e. lack of media, transport and other logistics.

Exercise 5.1 Zimtra horticulture

In 19x1/19x2, excerpts of horticulture produce statistics from Zimtra were as follows:

	Tonnes 19X1/19X2	% Value (ZIMD mil)	Projected % vol. increase
Vegetables	2879	45	800
Dried fruit	61	7.50	5000
Tropical fruit	842	20	600
Citrus	6300	50	2000
Flowers	3722	80	600
TOTAL	13,804	202.50	9000

Various studies had indicated that the potential export tonnage was, by the year 2000, some 200,000 tonnes. This increase was predicted on a massive increase in the hectareage given over citrus fruit in particular and increases in flower and off season vegetables production from the small scale farming sector. Exports are primarily to the Dutch flower auction and the EU.

Task

Devise a research design that would answer the following questions:

- i) How to identify potential markets for the increased exports?
- ii) How to reach these markets with the price, promotion, distribution and product as required by them?
- iii) How to ensure supply?
- iv) How to organise the Zimtra industry to be geared up to meet the

export challenge?

NB. Suggest actual market/countries which may be potential for Zimtra exports.

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Chapter 6: A Competitive Analysis And Strategy

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Successful marketers are those who can steer their organisations through the turbulent marketing environment, and do it better than competitors. Whilst easy to say, in practice it is not easy to do. Many competitive industries and organisations are very difficult to penetrate, despite all the intelligence techniques that may be available to get information. The Kenya flower industry, for example, whilst willing to give general information on their production and marketing, are very reluctant to give away their "trade" secrets. Other industries, like the diamond industry, are very exclusive in the sense that few companies dominate, the most famous being De Beers.

Despite this, any successful organisation has to look at the competition, and moreover, be aware how the nature of competition can guide its strategy. The Kenyan flower industry is facing increasingly stiff competition from Zimbabwe. Its response has to be rapid in order to preserve its stance. Whilst Kenya may have been a market "leader" with the appropriate strategy to go with it, Zimbabwe as a market "challenger," may have made Kenya now to think, more in the future, to go with a "niche" strategy as a counteraction. As we saw earlier, this certainly was the case with Kenyan vegetables.

Chapter Objectives

The objectives of this chapter are:

- To describe and give an understanding of the different ways of analysing competition
- To show how to develop strategies based on competitive analysis and
- To give examples to ensure understanding of the techniques.

Structure Of The Chapter

The chapter opens with a discussion on the nature of competition and then looks at

a number of competitive analyses, including the seminal work by Michael Porter on industry analysis. Examples are given to reinforce the theory and the chapter finishes by looking at "outsourcing" as an important competitive strategy.

Competition

Competition in most global product/markets is intense. In the fertiliser industry for example, few companies dominate - including Norsk Hydro. Product type competition has become intense also, for example, Pannar and Cargil seeds, so has brand competition, for example Israel's CARMEL and South Africa's OUTSPAN. Substitute competition has also become an increasingly bitter battleground, with products being able to replace others as technology and tastes have changed.

Industry analysis

One way to look at competition is by industry analysis. Competition drives down rates of return on invested capital. If the rate is "competitive" it will encourage investment, if not, it will discourage competition. Porter¹ (1980) and (1985) looked at the forces influencing competition in an industry and the elements of industry structure. Figure 6.1 shows the four forces influencing competition, threat of new entrants, threat of substitute products, "macro" factors like changes in technology and social factors and "micro" factors like customers' or buyers' changing needs.

Figure 6.1 Forces influencing competition in the industry

Porter further postulated that the elements of industry structure are suppliers, buyers, new entrants and substitutes (see figure 6.2).

In this analysis, the Malawian and Ugandan Birds Eye chili example is a good case. Uganda was a world supplier of chilies. Uganda, devastated by the war, saw Malawi, (a new entrant) take over its position. Now Uganda is hitting back by resurrecting its shattered industry and strongly marketing its product to Malawi's detriment.

In 1990, Porter² hypothesised in his text "The Competitive Advantage of Nations", why some nations were more competitive than others. As well as being able to successfully manoeuvre through the environment he identified that the foundation of success lay in the "diamond" of "home" advantage. To successfully launch an international challenge he identified four "home" prerequisites - the maximum use of endowed resources (natural and human) the forming of domestic networks to fully exploit these resources, domestic demand (which may involve the invitation to world class players to help develop these resources in country) and finally, an industry and environmental structure (the latter provided by Government) in order that these forces can thrive. Unfortunately, in many developing nations, the first stage only has been reached and even then much of the added value is exported. Thankfully this is not the case in other LDC's. We can examine this further by looking at the application of the above theory in the food industry.

Figure 6.2 Elements of industry structure

A food system, to be competitive, must have two requisites. Firstly it must be competitive with other agricultural systems or any other system for that matter (say wildlife management) in attracting resources, and secondly it must be absolutely competitive against similar commodity systems or industries in other countries. The commodity system may have to compete against those industries in international markets or be threatened by them in its domestic markets. Porter would refer to this as "competitive advantage" or "international competitiveness". Whilst Porter concentrates on two factors in the control of manufacturing industries i.e.:

- a) lower cost of production and delivery - leading to underpricing over

competition

b) differentiation of product - quality, image, services,

c) in export oriented agriculture it is essential to recognise a third potential source of competitive advantage that of:

d) complementary supply - "off season", meeting production shortfalls because of weather, disease and so on.

However, complementary supply may not be a competitive strategy per-se, in the long term, because a supplier must still look at itself as a low cost or product differentiated supplier.

As in industrial products, many factors go into making up the comparative or competitive advantage of a supplier. Similarly in food systems, many technological, market or natural resource endowment factors go towards making up competitive advantage. Many of these factors have actually been discussed, and these are summarised in table 6.1. These factors are primarily related to the size and patterns of food demand (shaped by incomes, tastes, technological developments etc.), microeconomics and sector policies (rate of inflation, investment policies, natural resources and human capital endowments (weather, soils, labour), physical and social infrastructure (roads, ports, telephones, power system) and micro-marketing relationship (quality/price relationships, management).

Table 6.1 Factors affecting international competitiveness for products/commodities¹

Factor	Vector
Market research	Income, tastes, resources and strengths of competing, suppliers, work patterns, population clusters, price, elasticities
Macroeconomics and sector policies	Terms of access and trade, price policies, fiscal and monetary policies, tariff and non tariff barriers
Natural resources and human capital	Geological resources, labour, climate, experience
Physical, technical, and social infrastructure	Transport, credit, market information, extension, communications, marketing extension, post harvest facilities
Micro marketing relationships	Quality control, efficiencies of management- buying, selling, handling, production, marketing, promotion, credit coordination, market research, risk analysis, relationship building.

In Porter's³ analysis industry competitors can be "threatened" by new or potential entrants and substitutes. In food marketing systems, barriers to new entrants can exist, as well as barriers to international competitiveness. These barriers can be related to technical characteristics of commodities, perishability, bulkiness; production characteristics - small scale producers incurring higher transport costs; production support systems; dissemination of information to producers; processing and distribution functions - economies of scale, and laws; rules and standards - hygiene requirements, sizing, grading, phytosanitary systems. Conversely these factors can also be "standardised" by Government or other market intermediaries and players to make the "threat" of new entrants even more real. These include standard technological measures like containerisation, packaging, waxcoating, use of accredited pesticides, mechanical handling; standard laws, rules and regulations -phytosanitary requirements, size, standards, grades and rules defining property rights; permissible forms of cooperation and competition; unusual brand marks or reputations; spot or contact trading; standard channels of distribution and so on. All these can help facilitate the entry of a newcomer and make the incumbent be particularly on guard and responsive. Table 6.2 give an example of a number of

sources of competitive advantage for selected worldwide products.

Table 6.2 Sources of competitive advantage for selected commodity systems

Commodity	Low cost advantage	Product differentiation	Off season	Shift in source/strategy of competitive advantage
Kenya vegetables	Production	Broad range	Historically, not low	
Thailand tuna	Processing			
Taiwan food processing		Tailor made, high quality		Low cost to differentiated supplier
Israel fresh and processed citrus		Broad range, brand name, tailor made	Important	Commodity supplier to niche and technology supported product
Brazil frozen concentrated orange juice	Production	Bulk transport, tank, farm distribution		

One of the remarkable success stories, against nearly all the odds, has been that of Argentina beef. It is an example of how, through low cost of production and product differentiation it has been able to maintain its international competitiveness.

CASE 6.1 Argentina Beef

Beef has been a tradition in Argentina for two centuries. It had always exported salted meat and later chilled beef, but with the establishment of "barriers" internationally the Commonwealth preference System, and other environmental factors like World War II, Argentina's international beef market contracted and so it standardised the domestic market. Argentina's beef consumption per capita is almost four times that of Western Europe (70-80 kgs compared to 15-25 kgs)

Despite its domestic orientation recently. Argentina is still the world's third largest beef producer and fourth in exporting terms behind Australia, Germany and the US. its traditional export markets for lower value products (boned and manufactured -beef) has been lost to subsidised EU supplies and because of other developed country protection measures.

However it has maintained or increased its export of high value products (boneless cuts, canned beef, frozen beef) which now account for over 80% of export value. Its export value is now near the \$800 million mark although only 10% of its total agricultural exports.

The Argentina beef industry faced all the "macro" forces described by Porter internally and externally, and the threat of new entrants, but survived. This success was not necessarily built on favourable trading conditions but its ability to maintain international competitiveness through rampant inflation, currency overvaluation, heavy taxation, potential uncertainty and increased competition from substitute products internationally and from the Argentine cereals subsector which was clamouring for more resources,

Its success was sustained by

- a) low cost production of quality beef (climate and extensive grasslands);
- b) well developed, flexible and transparent livestock marketing system;
- c) Innovations in beef distribution domestically (butcher chain stores, vacuum packing);
- d) development of new: international market outlets. (Mid East); and,
- e) debt rescheduling by banks for livestock and trading enterprises.

With recent measures to make the industry viable again, including capacity rationalisation, Argentina beef is now back in profit and. is exporting a little more now

Many more examples exist of less developed countries taking advantage of the low cost of production and product differentiation to make an international success. But this is not limited to LDC's alone. Israel found itself unable to compete internationally

with its citrus products, but found a new way to remain competitive internationally.

CASE 6.2 Israel Fresh Citrus Fruit

By the early 1950's, fuelled by mass immigration and large capital investments, the citrus subsector grew rapidly. Hectarage rose from 14 000 to over 40 000 hectares. With the well respected "Jaffa" label and the Citrus Marketing Board as the Only exporter (in Porter's term's giving huge, "supplier power") Israel oranges and grapefruit dominated many markets. However, by the late 1970's stiff competition from Spain, Morocco and Cyprus and changing consumer tastes led to a levelling off of demand, and the once powerful, Citrus Marketing Board found it had to shift its orientation from powerful, bargaining seller to a marketer" naturing new demand patterns. Whilst it succeeded in some of its promotion and utilisation campaigns, it increasingly found Itself with excess supply and a product which was less in demand. Consumer tastes had shifted to "easy peeling" oranges and tangerines and sweeter red grapefruit, away from Israeli Shamuti (Jaffa) orange and white grapefruit. The 1980's saw a major decline in international competitiveness and profitability with more than 20% of its planted citrus area uprooted, pack houses mothballed and volume levels falling to 1930's levels. The once powerful Citrus Marketing Board's monopoly was rescinded in 1991. Several factors led to Israel's decline. These included:-

- a) rapid cost inflation in the mid 1980's;
- b) the strength of the USD vis a vis European currencies. The CMB's unit of accounting was USD;
- c) a significant rise in international shipping costs in the early 1980's;
- d) financial crisis within Israel's agricultural settlements;
- e) improper export product mix;
- f) conflict of interest in the subsector giving weakened incentives for product innovations and quality;
- g) inability of the Citrus Marketing Board (CMB) to reposition itself to maintain competitiveness; and,
- h) Quality and supply of competitors, especially in demanded products for example Spain.

The Israeli citrus industry experienced all the problems envisaged by Porter In maintaining industry competitiveness. Bargaining power by the CMD shifted from supplier to the buyer. Competitors had a better product and lower costs and a product that was now demanded. These directly substituted for the Israeli product.

However, Israel responded. In 1990 a few cooperatives and processors began processing fruit, despite the unsuitability of the product in many cases, and were able to absorb one million tons of fresh fruit product. Export of processed citrus products (concentrates, bases, essential oils etc) first exceeded its value of fresh fruit in 1984 and are now double the export of fresh fruits. Technological advances and the ability to tailor make to niches has ensured international competitiveness. However, the greatest potential, looks like in the supply of root stock to other producers and processors, although Florida and Brazil are doing the same.

Competition analysis

In order to know how best to compete, as well as the analysis given above, one needs to know the way competitors measure themselves, their strategy to date, their major strengths and weaknesses and likely future strategy. In the first of these - knowing the way competitors see themselves - much can be learned from public accounts, interviews and the trade press. Other ways are to have competitive personnel, take part in trade fairs, purchase the competitor's product and take it apart, or indulge in "espionage". In identifying the competitor's strategy to date, it is not enough to believe what they say but to reconstruct their strategy. Evaluating resources is difficult. It is essential to look at their production, marketing, financial and management resources. On the basis of these first three, it is possible to guess

the future.

Not all competitors are necessarily bad. Good competitors can absorb demand fluctuations, expand the market, increase motivation, and act responsively to the industry. There is, for example, room for all developing countries to take a share in most world markets in commodities, without one country wishing to be too aggressive.

Competitive strategy

Value chain analysis espouses three roles for marketing in a global competitive strategy. The first relates to the configuration of marketing. It may be advantageous to concentrate some marketing activities in one or a few countries. A second role relates to the coordination of activities across countries to gain leverage say, of know how. A third critical role of marketing is its role in tapping opportunities for upstream advantage in the value chain. More will be said about value chain analysis in later chapters.

Generic approaches

According to Porter¹ (1980) there are three generic approaches to outperforming others in an industry - overall cost leadership, differentiation and focus (see figure 6.3).

Figure 6.3 Generic competitive advantage

If there are few perceived differences between products and their uses are widespread, then the lowest cost firms will get the advantage. This is the case of television sets and many fruit products. If there is a large perceived difference created, then the firm has more price leeway. CARMEL and OUTSPAN successfully created a perceived quality advantage, as have Cadbury and Nestle. Focus strategies concentrate on serving a particular segment better than anyone else. A good example of this is the Dutch flower auction or Gerber baby foods.

The life cycle

As indicated in chapter one, successful global strategists have also to be cognisant of the international life cycle. Successful strategies start with a firm base in one region or country, then expand as opportunities arise. These opportunities have to be explored alongside careful analysis of the life cycle stage in one or another country. Failure to do so may mean that the opportunity has passed, whereas the firm may be under the impression it is still there.

Strategies for success

Success can be achieved in industries by identifying growth segments within an overall market, enhancing quality and stressing operating efficiencies. In fragmented industries success can be achieved by the creation of economies of scale. In the poultry and beef cattle industry, for example, this means feed lots and intensive rearing. Another way of overcoming fragmentation is by "positioning" which must be consistent.

The three types of positioning strategy are market leader, market challenger or market follower. In market leadership the firm must work at maintaining its position, having got there through, say, cost advantage or innovation, by being very responsive to market needs. We saw in the case of Argentina's beef and Brazil's frozen concentrated orange juice that success was built on:

- Economies of scale - low cost of production
- Customer knowledge - shifting the product mix to meet changing

demand

- Technological innovation - vacuum packing policy, bulk transport
- Infrastructural development - supermarkets, transport systems

In the market challenger category, an organisation may publicly announce its intention to take over the number one position either by price advantage, product innovation or promotion. We shall see this later in the case of Thailand's tuna industry.

The market follower is "allowed" to stay in the market only if the leader chooses to maintain a price umbrella and not maximize share. However the follower may be able to service segments on a more personal level than the leader and hence maintain an industry position.

Other strategies include "market flanking" - a classical Japanese approach. The competitive position of the industry is very important to the would be global marketer. Intelligence, such as that gathered by the process described in chapter five, is an essential prerequisite to designing a strategy. Too often developing countries attempt to gain entry into the international market without knowledge of the industry or competitors. Malaysia attempted to break into the cocoa industry, but did not achieve success because the cocoa was the wrong type and the product could not be absorbed into the world market. In the cut flower industry, it is the high value types which are giving the returns now - carnations, roses, orchids - rather than the low value ones. In marketing vegetables to the UK, any other route but through buying agents, until recently, was a recipe for disaster. Now it is somewhat changing. The need to properly assess the market and devise a strategy on the assessment is a must to succeed.

The "copy adapt" strategy is a relatively well tried strategy in which an organisation may seek to copy a successful product/market strategy pioneered by another organisation and adapt it to local conditions or other markets. Many examples of this strategy exist in LDCs, where the local populace may simply not have the income to afford the real thing. Typical examples exist in all countries but none more so than in India. One can see agricultural land implements, tractors, ox carts and many other cheaper, adaptations of well known marques, for example, the International Harvester and the Indian Mahindra tractor "look alike".

Sourcing

A different approach to gaining competitive advantage may be through "out sourcing" from a number of countries, or through out sourcing in country as in the case of Kenya vegetables. In analysing a value chain the organisation may find it much cheaper or easier to source certain components of the chain from outside of the country it is operating in. This is often called the "make or buy" decision. The criteria for the "out" sourcing decision are:

- Factor costs and availability
- Logistics: time required to fill orders, security and safety and transportation costs
- Country's infrastructure
- Political risk
- Market access
- Foreign exchange
- Technological capability.

"As illustration of the above discussion, take the assembly of tractors in Zimbabwe. The electronics and some other components are incapable of being sourced locally because of the technical sophistication required in the production process. These components have, therefore, to be imported. It is only when all the factors listed

above are in place, that global sourcing can occur effectively. Continuing with the Zimbabwean example, it is impossible for the country to be highly outsource orientated and find cheaper labour factor countries to manufacture products because, prior to 1990, there was insufficient foreign exchange to pay for them. Since 1990, with economic reform, this situation is now rapidly changing.

Outsourcing is a well established global strategy. It is uncommon for global organisations like Ford and Toyota to source components and end products from a variety of countries or to shift global production to the most cost competitive economies. World markets are a stage on which a player must choose or find his unique part. Essentially, this is what competitive strategy is all about".

Chapter Summary

As with domestic marketing, global marketers have to decide how they are to compete in their chosen market. According to Porter, the principal sources of competitive advantage are lower costs of production and a differentiated product offering. Lesser developed countries usually have the former, but may have to work hard to obtain the latter.

Should countries not be able to obtain a cost advantage, one possible option is to "outsource" production. This is a very common phenomenon of developed countries. However, it does take careful coordination and setting up if it is to be successful.

There are other strategies available to marketers other than low cost, these include market leadership, market challenger or market flanking. All these strategies require information on competitors as well as on "environmental" conditions.

Key Terms

Competitive strategy Competition Sourcing
Competitive advantage Marketing positioning

Review Questions

1. What is the difference between "comparative advantage" and "competitive advantage"?
2. What are the sources of "competitive advantage" in a food marketing system?
3. Describe, with examples, a market leader, market challenger, market follower, market flanker and copy - adapt strategy.

Review Question Answers

1. Comparative advantage is the ability of one country to achieve a lower production ratio, under total specialisation, in one commodity, compared to that commodity in another country.

Competitive advantage is based on lower production costs and/or quality of market factor differentiation between one country or industry and another in like products.

2. Sources of competitive advantage are:

- lower costs of production
- quality or market factor differentiations
- supplementary supply patterns

Tutors are advised to ask students to give examples of these later, either from the

text or from general reading. Such examples include Brazil frozen concentrated orange juice (lower costs) Kenyan vegetables (product range) or Chile tomato pastes (supply patterns)

- 3. Market leader - through cost or innovation advantage (Argentine beef),
- Market challenger - through price or product innovation/promotion (Spanish easy peeler citrus)
- Market follower - through price umbrella or share (Zimbabwe beef)
- Market flanker - through taking up market interstices (Thailand tuna)
- Copy - adapt - through advertising known technology/products (Mahindra tractors)

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Chapter 7: Market Entry Strategies

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When an organisation has made a decision to enter an overseas market, there are a variety of options open to it. These options vary with cost, risk and the degree of control which can be exercised over them. The simplest form of entry strategy is exporting using either a direct or indirect method such as an agent, in the case of the former, or countertrade, in the case of the latter. More complex forms include truly global operations which may involve joint ventures, or export processing zones. Having decided on the form of export strategy, decisions have to be made on the specific channels. Many agricultural products of a raw or commodity nature use agents, distributors or involve Government, whereas processed materials, whilst not excluding these, rely more heavily on more sophisticated forms of access. These will be expanded on later.

Chapter Objectives

The objectives of the chapter are:

Structure Of The Chapter

The chapter begins by looking at the concept of market entry strategies within the control of a chosen marketing mix. It then goes on to describe the different forms of entry strategy, both direct and indirect exporting and foreign production, and the advantages and disadvantages connected with each method. The chapter gives specific details on "countertrade", which is very prevalent in global marketing, and then concludes by looking at the special features of commodity trading with its "close coupling" between production and marketing.

Basic issues

An organisation wishing to "go international" faces three major issues:

- i) Marketing - which countries, which segments, how to manage and implement marketing effort, how to enter - with intermediaries or directly, with what information?

ii) Sourcing - whether to obtain products, make or buy?

iii) Investment and control - joint venture, global partner, acquisition?

Decisions in the marketing area focus on the value chain (see figure 7.1). The strategy or entry alternatives must ensure that the necessary value chain activities are performed and integrated.

Figure 7.1 The value chain -marketing function detail

In making international marketing decisions on the marketing mix more attention to detail is required than in domestic marketing. Table 7.1 lists the detail required¹.

Table 7.1 Examples of elements included in the export marketing mix

1. Product support - Product sourcing - Match existing products to markets - air, sea, rail, road, freight - New products - Product management - Product testing - Manufacturing specifications - Labelling - Packaging - Production control - Market information
2. Price support - Establishment of prices - Discounts - Distribution and maintenance of pricelists - Competitive information - Training of agents/customers
3. Promotion/selling support - Advertising - Promotion - literature - Direct mail - Exhibitions, trade shows - Printing - Selling (direct) - Sales force - Agents commissions - Sale or returns
4. Inventory support - Inventory management - Warehousing - Distribution - Parts supply - Credit authorisation
5. Distribution support - Funds provision - Raising of capital - Order processing - Export preparation and documentation - Freight forwarding - Insurance - Arbitration
6. Service support - Market information/intelligence - Quotes processing - Technical aid assistance - After sales

- Guarantees
- Warranties/claims
- Merchandising
- Sales reports, catalogues literature
- Customer care
- Budgets
- Data processing systems
- Insurance
- Tax services
- Legal services
- Translation

7. Financial support

- Billing, collecting invoices
- Hire, rentals
- Planning, scheduling budget data
- Auditing

Details on the sourcing element have already been covered in the chapter on competitive analysis and strategy. Concerning investment and control, the question really is how far the company wishes to control its own fate. The degree of risk involved, attitudes and the ability to achieve objectives in the target markets are important facets in the decision on whether to license, joint venture or get involved in direct investment.

Cunningham¹ (1986) identified five strategies used by firms for entry into new foreign markets:

- i) Technical innovation strategy - perceived and demonstrable superior products
- ii) Product adaptation strategy - modifications to existing products
- iii) Availability and security strategy - overcome transport risks by countering perceived risks
- iv) Low price strategy - penetration price and,
- v) Total adaptation and conformity strategy - foreign producer gives a straight copy.

In marketing products from less developed countries to developed countries point iii) poses major problems. Buyers in the interested foreign country are usually very careful as they perceive transport, currency, quality and quantity problems. This is true, say, in the export of cotton and other commodities.

Because, in most agricultural commodities, production and marketing are interlinked, the infrastructure, information and other resources required for building market entry can be enormous. Sometimes this is way beyond the scope of private organisations, so Government may get involved. It may get involved not just to support a specific commodity, but also to help the "public good". Whilst the building of a new road may assist the speedy and expeditious transport of vegetables, for example, and thus aid in their marketing, the road can be put to other uses, in the drive for public good utilities. Moreover, entry strategies are often marked by "lumpy investments". Huge investments may have to be undertaken, with the investor paying a high risk price, long before the full utilisation of the investment comes. Good examples of this include the building of port facilities or food processing or freezing facilities. Moreover, the equipment may not be able to be used for other processes, so the asset specific equipment, locked into a specific use, may make the owner very vulnerable to the bargaining power of raw material suppliers and product buyers who process alternative production or trading options. Zimfreeze, Zimbabwe is experiencing such problems. It built a large freezing plant for vegetables but found itself without a contract. It has been forced, at the moment, to accept sub optional volume product materials just in order to keep the plant ticking over.

In building a market entry strategy, time is a crucial factor. The building of an intelligence system and creating an image through promotion takes time, effort and money. Brand names do not appear overnight. Large investments in promotion campaigns are needed. Transaction costs also are a critical factor in building up a market entry strategy and can become a high barrier to international trade. Costs include search and bargaining costs. Physical distance, language barriers, logistics costs and risk limit the direct monitoring of trade partners. Enforcement of contracts may be costly and weak legal integration between countries makes things difficult. Also, these factors are important when considering a market entry strategy. In fact these factors may be so costly and risky that Governments, rather than private individuals, often get involved in commodity systems. This can be seen in the case of the Citrus Marketing Board of Israel. With a monopoly export marketing board, the entire system can behave like a single firm, regulating the mix and quality of products going to different markets and negotiating with transporters and buyers. Whilst these Boards can experience economies of scale and absorb many of the risks listed above, they can shield producers from information about, and from, buyers. They can also become the "fiefdoms" of vested interests and become political in nature. They then result in giving reduced production incentives and cease to be demand or market orientated, which is detrimental to producers.

Normal ways of expanding the markets are by expansion of product line, geographical development or both. It is important to note that the more the product line and/or the geographic area is expanded the greater will be the managerial complexity. New market opportunities may be made available by expansion but the risks may outweigh the advantages, in fact it may be better to concentrate on a few geographic areas and do things well. This is typical of the horticultural industry of Kenya and Zimbabwe. Traditionally these have concentrated on European markets where the markets are well known. Ways to concentrate include concentrating on geographic areas, reducing operational variety (more standard products) or making the organisational form more appropriate. In the latter the attempt is made to "globalise" the offering and the organisation to match it. This is true of organisations like Coca Cola and MacDonald's. Global strategies include "country centred" strategies (highly decentralised and limited international coordination), "local market approaches" (the marketing mix developed with the specific local (foreign) market in mind) or the "lead market approach" (develop a market which will be a best predictor of other markets). Global approaches give economies of scale and the sharing of costs and risks between markets.

Entry strategies

There are a variety of ways in which organisations can enter foreign markets. The three main ways are by direct or indirect export or production in a foreign country (see figure 7.2).

Exporting

Exporting is the most traditional and well established form of operating in foreign markets. Exporting can be defined as the marketing of goods produced in one country into another. Whilst no direct manufacturing is required in an overseas country, significant investments in marketing are required. The tendency may be not to obtain as much detailed marketing information as compared to manufacturing in marketing country; however, this does not negate the need for a detailed marketing strategy.

Figure 7.2 Methods of foreign market entry

The advantages of exporting are:

- manufacturing is home based thus, it is less risky than overseas based

- gives an opportunity to "learn" overseas markets before investing in bricks and mortar
- reduces the potential risks of operating overseas.

The disadvantage is mainly that one can be at the "mercy" of overseas agents and so the lack of control has to be weighed against the advantages. For example, in the exporting of African horticultural products, the agents and Dutch flower auctions are in a position to dictate to producers.

A distinction has to be drawn between passive and aggressive exporting. A passive exporter awaits orders or comes across them by chance; an aggressive exporter develops marketing strategies which provide a broad and clear picture of what the firm intends to do in the foreign market. Pavord and Bogart² (1975) found significant differences with regard to the severity of exporting problems in motivating pressures between seekers and non-seekers of export opportunities. They distinguished between firms whose marketing efforts were characterized by no activity, minor activity and aggressive activity.

Those firms who are aggressive have clearly defined plans and strategy, including product, price, promotion, distribution and research elements. Passiveness versus aggressiveness depends on the motivation to export. In countries like Tanzania and Zambia, which have embarked on structural adjustment programmes, organisations are being encouraged to export, motivated by foreign exchange earnings potential, saturated domestic markets, growth and expansion objectives, and the need to repay debts incurred by the borrowings to finance the programmes. The type of export response is dependent on how the pressures are perceived by the decision maker. Piercy (1982)³ highlights the fact that the degree of involvement in foreign operations depends on "endogenous versus exogenous" motivating factors, that is, whether the motivations were as a result of active or aggressive behaviour based on the firm's internal situation (endogenous) or as a result of reactive environmental changes (exogenous).

If the firm achieves initial success at exporting quickly all to the good, but the risks of failure in the early stages are high. The "learning effect" in exporting is usually very quick. The key is to learn how to minimise risks associated with the initial stages of market entry and commitment - this process of incremental involvement is called "creeping commitment" (see figure 7.3).

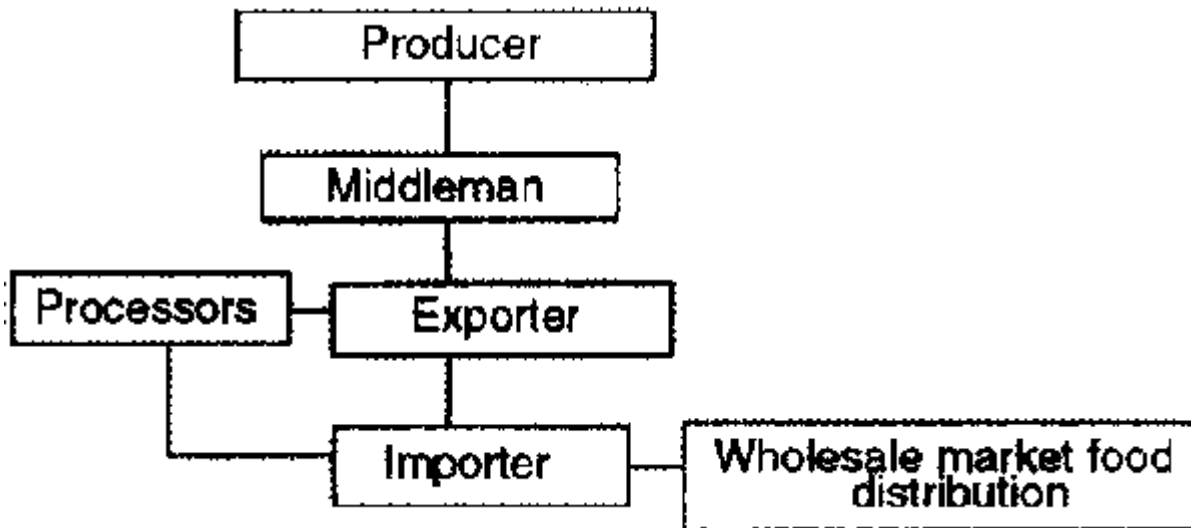
Figure 7.3 Aggressive and passive export paths

Exporting methods include direct or indirect export. In direct exporting the organisation may use an agent, distributor, or overseas subsidiary, or act via a Government agency. In effect, the Grain Marketing Board in Zimbabwe, being commercialised but still having Government control, is a Government agency. The Government, via the Board, are the only permitted maize exporters. Bodies like the Horticultural Crops Development Authority (HCDA) in Kenya may be merely a promotional body, dealing with advertising, information flows and so on, or it may be active in exporting itself, particularly giving approval (like HCDA does) to all export documents. In direct exporting the major problem is that of market information. The exporter's task is to choose a market, find a representative or agent, set up the physical distribution and documentation, promote and price the product. Control, or the lack of it, is a major problem which often results in decisions on pricing, certification and promotion being in the hands of others. Certainly, the phytosanitary requirements in Europe for horticultural produce sourced in Africa are getting very demanding. Similarly, exporters are price takers as produce is sourced also from the Caribbean and Eastern countries. In the months June to September, Europe is "on season" because it can grow its own produce, so prices are low. As such, producers are better supplying to local food processors. In the European winter prices are much better, but product competition remains.

According to Collett⁴ (1991)) exporting requires a partnership between exporter, importer, government and transport. Without these four coordinating activities the risk of failure is increased. Contracts between buyer and seller are a must. Forwarders and agents can play a vital role in the logistics procedures such as booking air space and arranging documentation. A typical coordinated marketing channel for the export of Kenyan horticultural produce is given in figure 7.4.

In this case the exporters can also be growers and in the low season both these and other exporters may send produce to food processors which is also exported.

Figure 7.4 The export marketing channel for Kenyan horticultural products.



Exporting can be very lucrative, especially 'if it is of high value added produce. For example in 1992/93 Zimbabwe exported 5 338,38 tonnes of flowers, 4 678,18 tonnes of horticultural produce and 12 000 tonnes of citrus at a total value of about US\$ 22 016,56 million. In some cases a mixture of direct and indirect exporting may be achieved with mixed results. For example, the Grain Marketing Board of Zimbabwe may export grain directly to Zambia, or may sell it to a relief agency like the United Nations, for feeding the Mozambican refugees in Malawi. Payment arrangements may be different for the two transactions.

Nali products of Malawi gives an interesting example of a "passive to active" exporting mode.

CASE 7.1 Nali Producers - Malawi

Nali group, has, since the early 1970s, been engaged in the growing and exporting of spices. Spices are also used in the production of a variety of sauces for both the local and export market. Its major success has been the growing and exporting of Birdseye chilies. In the early days knowledge of the market was scanty and thus the company was obtaining ridiculously low prices. Towards the end of 1978 Nali chilies were in great demand, yet still the company, in its passive mode, did not fully appreciate the competitive implications of the business until a number of firms, including Lonrho and Press Farming, started to grow and export.

Again, due to the lack of information, a product of its passivity, the firm did not realise that Uganda, with their superior product, and Papua New Guinea were major exporters. However, the full potential of these countries was hampered by internal difficulties. Nali was able to grow into a successful commercial enterprise. However, with the end of the internal problems, Uganda in particular, began an aggressive exporting policy, using their overseas legations as commercial propagandists. Nali had to respond with a more formal and active marketing operation. However it is being now hampered by a number of important "exogenous" factors.

The entry of a number of new Malawian growers, with inferior products, has damaged the

Malawian chili reputation, so has the lack of a clear Government policy and the lack of financing for traders, growers and exporters.

The latter only serves to emphasise the point made by Collett, not only do organisations need to be aggressive, they also need to enlist the support of Government and importers.

It is interesting to note that Korey (1986) warns that direct modes of market entry may be less and less available in the future. Growing trading blocs like the EU or EFTA means that the establishing of subsidiaries may be one of the only means forward in future.

It is interesting to note that Korey⁵ 1986 warned that direct modes of market entry may be less and less available in the future. Growing trading blocks like the EU or EFTA means that the establishment of subsidiaries may be one of the only ways forward in future. Indirect methods of exporting include the use of trading companies (very much used for commodities like cotton, soya, cocoa), export management companies, piggybacking and countertrade.

Indirect methods offer a number of advantages including:

- Contracts - in the operating market or worldwide
- Commission rates give high motivation (not necessarily loyalty)
- Manufacturer/exporter needs little expertise
- Credit acceptance takes burden from manufacturer.

Piggybacking

Piggybacking is an interesting development. The method means that organisations with little exporting skill may use the services of one that has. Another form is the consolidation of orders by a number of companies in order to take advantage of bulk buying. Normally these would be geographically adjacent or able to be served, say, on an air route. The fertilizer manufacturers of Zimbabwe, for example, could piggyback with the South Africans who both import potassium from outside their respective countries.

Countertrade

By far the largest indirect method of exporting is countertrade. Competitive intensity means more and more investment in marketing. In this situation the organisation may expand operations by operating in markets where competition is less intense but currency based exchange is not possible. Also, countries may wish to trade in spite of the degree of competition, but currency again is a problem. Countertrade can also be used to stimulate home industries or where raw materials are in short supply. It can, also, give a basis for reciprocal trade.

Estimates vary, but countertrade accounts for about 20-30% of world trade, involving some 90 nations and between US \$100-150 billion in value. The UN defines countertrade as "commercial transactions in which provisions are made, in one of a series of related contracts, for payment by deliveries of goods and/or services in addition to, or in place of, financial settlement".

Countertrade is the modern form of barter, except contracts are not legal and it is not covered by GATT. It can be used to circumvent import quotas.

Countertrade can take many forms. Basically two separate contracts are involved, one for the delivery of and payment for the goods supplied and the other for the purchase of and payment for the goods imported. The performance of one contract is not contingent on the other although the seller is in effect accepting products and services from the importing country in partial or total settlement for his exports. There is a broad agreement that countertrade can take various forms of exchange like barter, counter purchase, switch trading and compensation (buyback). For example,

in 1986 Albania began offering items like spring water, tomato juice and chrome ore in exchange for a contract to build a US \$60 million fertilizer and methanol complex. Information on potential exchange can be obtained from embassies, trade missions or the EU trading desks.

Barter is the direct exchange of one good for another, although valuation of respective commodities is difficult, so a currency is used to underpin the item's value.

Barter trade can take a number of formats. Simple barter is the least complex and oldest form of bilateral, non-monetarised trade. Often it is called "straight", "classical" or "pure" barter. Barter is a direct exchange of goods and services between two parties. Shadow prices are approximated for products flowing in either direction. Generally no middlemen are involved. Usually contracts for no more than one year are concluded, however, if for longer life spans, provisions are included to handle exchange ratio fluctuations when world prices change.

Closed end barter deals are modifications of straight barter in that a buyer is found for goods taken in barter before the contract is signed by the two trading parties. No money is involved and risks related to product quality are significantly reduced.

Clearing account barter, also termed clearing agreements, clearing arrangements, bilateral clearing accounts or simply bilateral clearing, is where the principle is for the trades to balance without either party having to acquire hard currency. In this form of barter, each party agrees in a single contract to purchase a specified and usually equal value of goods and services. The duration of these transactions is commonly one year, although occasionally they may extend over a longer time period. The contract's value is expressed in non-convertible, clearing account units (also termed clearing dollars) that effectively represent a line of credit in the central bank of the country with no money involved.

Clearing account units are universally accepted for the accounting of trade between countries and parties whose commercial relationships are based on bilateral agreements. The contract sets forth the goods to be exchanged, the rates of exchange, and the length of time for completing the transaction. Limited export or import surpluses may be accumulated by either party for short periods. Generally, after one year's time, imbalances are settled by one of the following approaches: credit against the following year, acceptance of unwanted goods, payment of a previously specified penalty or payment of the difference in hard currency.

Trading specialists have also initiated the practice of buying clearing dollars at a discount for the purpose of using them to purchase saleable products. In turn, the trader may forfeit a portion of the discount to sell these products for hard currency on the international market. Compared with simple barter, clearing accounts offer greater flexibility in the length of time for drawdown on the lines of credit and the types of products exchanged.

Counter purchase, or buyback, is where the customer agrees to buy goods on condition that the seller buys some of the customer's own products in return (compensatory products). Alternatively, if exchange is being organised at national government level then the seller agrees to purchase compensatory goods from an unrelated organisation up to a pre-specified value (offset deal). The difference between the two is that contractual obligations related to counter purchase can extend over a longer period of time and the contract requires each party to the deal to settle most or all of their account with currency or trade credits to an agreed currency value.

Where the seller has no need for the item bought he may sell the produce on, usually at a discounted price, to a third party. This is called a switch deal. In the past a number of tractors have been brought into Zimbabwe from East European

countries by switch deals.

Compensation (buy-backs) is where the supplier agrees to take the output of the facility over a specified period of time or to a specified volume as payment. For example, an overseas company may agree to build a plant in Zambia, and output over an agreed period of time or agreed volume of produce is exported to the builder until the period has elapsed. The plant then becomes the property of Zambia.

Khoury⁶ (1984) categorises countertrade as follows (see figure 7.5):

One problem is the marketability of products received in countertrade. This problem can be reduced by the use of specialised trading companies which, for a fee ranging between 1 and 5% of the value of the transaction, will provide trade related services like transportation, marketing, financing, credit extension, etc. These are ever growing in size.

Countertrade has disadvantages:

- Not covered by GATT so "dumping" may occur
- Quality is not of international standard so costly to the customer and trader
- Variety is low so marketing of what is limited
- Difficult to set prices and service quality
- Inconsistency of delivery and specification,
- Difficult to revert to currency trading - so quality may decline further and therefore product is harder to market.

Figure 7.5 Classification of countertrade

Shipley and Neale⁷ (1988) therefore suggest the following:

- Ensure the benefits outweigh the disadvantages
- Try to minimise the ratio of compensation goods to cash - if possible inspect the goods for specifications
- Include all transactions and other costs involved in countertrade in the nominal value specified for the goods being sold
- Avoid the possibility of error of exploitation by first gaining a thorough understanding of the customer's buying systems, regulations and politics,
- Ensure that any compensation goods received as payment are not subject to import controls.

Despite these problems countertrade is likely "to grow as a major indirect entry method, especially in developing countries.

Foreign production

Besides exporting, other market entry strategies include licensing, joint ventures, contract manufacture, ownership and participation in export processing zones or free trade zones.

Licensing: Licensing is defined as "the method of foreign operation whereby a firm

in one country agrees to permit a company in another country to use the manufacturing, processing, trademark, know-how or some other skill provided by the licensor".

It is quite similar to the "franchise" operation. Coca Cola is an excellent example of licensing. In Zimbabwe, United Bottlers have the licence to make Coke.

Licensing involves little expense and involvement. The only cost is signing the agreement and policing its implementation.

Licensing gives the following advantages:

- Good way to start in foreign operations and open the door to low risk manufacturing relationships
- Linkage of parent and receiving partner interests means both get most out of marketing effort
- Capital not tied up in foreign operation and
- Options to buy into partner exist or provision to take royalties in stock.

The disadvantages are:

- Limited form of participation - to length of agreement, specific product, process or trademark
- Potential returns from marketing and manufacturing may be lost
- Partner develops know-how and so licence is short
- Licensees become competitors - overcome by having cross technology transfer deals and
- Requires considerable fact finding, planning, investigation and interpretation.

Those who decide to license ought to keep the options open for extending market participation. This can be done through joint ventures with the licensee.

Joint ventures

Joint ventures can be defined as "an enterprise in which two or more investors share ownership and control over property rights and operation".

Joint ventures are a more extensive form of participation than either exporting or licensing. In Zimbabwe, Olivine industries has a joint venture agreement with HJ Heinz in food processing.

Joint ventures give the following advantages:

- Sharing of risk and ability to combine the local in-depth knowledge with a foreign partner with know-how in technology or process
- Joint financial strength
- May be only means of entry and
- May be the source of supply for a third country.

They also have disadvantages:

- Partners do not have full control of management
- May be impossible to recover capital if need be
- Disagreement on third party markets to serve and
- Partners may have different views on expected benefits.

If the partners carefully map out in advance what they expect to achieve and how, then many problems can be overcome.

Ownership: The most extensive form of participation is 100% ownership and this involves the greatest commitment in capital and managerial effort. The ability to communicate and control 100% may outweigh any of the disadvantages of joint ventures and licensing. However, as mentioned earlier, repatriation of earnings and capital has to be carefully monitored. The more unstable the environment the less likely is the ownership pathway an option.

These forms of participation: exporting, licensing, joint ventures or ownership, are on a continuum rather than discrete and can take many formats. Anderson and Coughlan⁸ (1987) summarise the entry mode as a choice between company owned or controlled methods - "integrated" channels - or "independent" channels. Integrated channels offer the advantages of planning and control of resources, flow of information, and faster market penetration, and are a visible sign of commitment. The disadvantages are that they incur many costs (especially marketing), the risks are high, some may be more effective than others (due to culture) and in some cases their credibility amongst locals may be lower than that of controlled independents. Independent channels offer lower performance costs, risks, less capital, high local knowledge and credibility. Disadvantages include less market information flow, greater coordinating and control difficulties and motivational difficulties. In addition they may not be willing to spend money on market development and selection of good intermediaries may be difficult as good ones are usually taken up anyway.

Once in a market, companies have to decide on a strategy for expansion. One may be to concentrate on a few segments in a few countries - typical are cashewnuts from Tanzania and horticultural exports from Zimbabwe and Kenya - or concentrate on one country and diversify into segments. Other activities include country and market segment concentration - typical of Coca Cola or Gerber baby foods, and finally country and segment diversification. Another way of looking at it is by identifying three basic business strategies: stage one - international, stage two - multinational (strategies correspond to ethnocentric and polycentric orientations respectively) and stage three - global strategy (corresponds with geocentric orientation). The basic philosophy behind stage one is extension of programmes and products, behind stage two is decentralisation as far as possible to local operators and behind stage three is an integration which seeks to synthesize inputs from world and regional headquarters and the country organisation. Whilst most developing countries are hardly in stage one, they have within them organisations which are in stage three. This has often led to a "rebellion" against the operations of multinationals, often unfounded.

Export processing zones (EPZ)

Whilst not strictly speaking an entry-strategy, EPZs serve as an "entry" into a market. They are primarily an investment incentive for would be investors but can also provide employment for the host country and the transfer of skills as well as provide a base for the flow of goods in and out of the country. One of the best examples is the Mauritian EPZ¹², founded in the 1970s.

CASE 7.2 The Mauritian Export Processing Zone

Since its inception over 400 firms have established themselves in sectors as diverse as textiles, food, watches. And plastics. In job employment the results have been startling, as at 1987, 78,000 were employed in the EPZ. Export earnings have tripled from 1981 to 1986 and the added value has been significant- The roots of success can be seen on the supply, demand and institutional sides. On the supply side the most critical factor has been the generous financial and other incentives, on the demand side, access to the EU, France, India and Hong Kong was very tempting to investors. On the institutional side positive

schemes were put in place, including finance from the Development Bank and the cutting of red tape. In setting up the export processing zone the Mauritian government displayed a number of characteristics which in hindsight, were crucial to its success.

- The government intelligently sought a development strategy in an apolitical manner
- It stuck to its strategy in the long run rather than reverse course at the first sign of trouble
- It encouraged market incentives rather than undermined them
- It showed a good deal of adaptability, meeting each challenge with creative solutions rather than maintaining the status quo
- It adjusted the general export promotion programme to suit its own particular needs and characteristics.
- It consciously guarded against the creation of an unwieldy bureaucratic structure.

Organisations are faced with a number of strategy alternatives when deciding to enter foreign markets. Each one has to be carefully weighed in order to make the most appropriate choice. Every approach requires careful attention to marketing, risk, matters of control and management. A systematic assessment of the different entry methods can be achieved through the use of a matrix (see table 7.2).

Table 7.2 Matrix for comparing alternative methods of market entry

Evaluation criteria	Entry mode							
	Indirect export	Direct export	Marketing subsidiary	Counter trade	Licensing	Joint venture	Wholly owned operation	EPZ
a) Company goals								
b) Size of company								
c) Resources								
d) Product								
e) Remittance								
f) Competition								
g) Middlemen characteristics								
h) Environmental characteristics								
i) Number of markets								
j) Market								
k) Market feedback								
l) International market learning								
m) Control								
n) Marketing costs								
o) Profits								
p) Investment								

q) Administration personnel								
r) Foreign problems								
s) Flexibility								
t) Risk								

Details of channel management will appear in a later chapter.

Special features of commodity trade

As has been pointed out time and again in this text, the international marketing of agricultural products is a "close coupled" affair between production and marketing and end user. Certain characteristics can be identified in market entry strategies which are different from the marketing of say cars or television sets. These refer specifically to the institutional arrangements linking producers and processors/exporters and those between exporters and foreign buyers/agents.

Institutional links between producers and processors/exporters

One of the most important factors is contract coordination. Whilst many of the details vary, most contracts contain the supply of credit/production inputs, specifications regarding quantity, quality and timing of producer deliveries and a formula or price mechanism. Such arrangements have improved the flow of money, information and technologies, and very importantly, shared the risk between producers and exporters.

Most arrangements include some form of vertical integration between producers and downstream activities. Often processors enter into contracted outgrower arrangements or supply raw inputs. This institutional arrangement has now, incidentally, spilled over into the domestic market where firms are wishing to target higher quality, higher priced segments.

Producer trade associations, boards or cooperatives have played a significant part in the entry strategies of many exporting countries. They act as a contact point between suppliers and buyers, obtain vital market information, liaise with Governments over quotas etc. and provide information, or even get involved in quality standards. Some are very active, witness the Horticultural Crops Development Authority (HCDA) of Kenya and the Citrus Marketing Board (CMD) of Israel, the latter being a Government agency which specifically got involved in supply quotas. An example of the institutional arrangements¹³ involved is given in table 7.3.

Table 7.3 Institutional arrangements linking producers with processors/exporters

Commodity	Market co-ordination	Contract co-ordination	Ownership interaction	Association co-ordination	Government co-ordination	Marketing risk reduction
Kenya vegetables	X	X	X			X
Zimbabwe horticulture	X			X	X	X
Israel fresh fruits						
Thailand tuna		XX		X	X	X

Argentina beef		X		X		X
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XX = Dominant linkage

Institutional links between exporters and foreign buyers/agents

Linkages between exporters and foreign buyers are often dominated by open market trade or spot market sales or sales on consignment. The physical distances involved are also very significant.

Most contracts are of a seasonal, annual or other nature. Some products are handled by multinationals, others by formal integration by processors, building up import/distribution firms. In the case of Kenyan fresh vegetables familial ties are very important between exporters and importers. These linkages have been very important in maintaining market excess, penetrating expanding markets and in obtaining market and product change information, thus reducing considerably the risks of doing business. In some cases, Government gets involved in negotiating deals with foreign countries, either through trade agreements or other mechanisms. Zimbabwe's imports of Namibian mackerel were the result of such a Government negotiated deal. Table 7.4¹³ gives examples of linkages between exporters and foreign buyers/agents.

Table 7.4 Linkages between exporters and foreign buyers/agents.

Commodity	Market co-ordination	Contract co-ordination	Ownership interaction	Association co-ordination	Government co-ordination	Marketing risk reduction
Kenya vegetables	X	X	X			X
Zimbabwe horticulture		X		X	X	X
Israel fresh fruits	X	X				X
Thailand tuna	X	XX	XX	X		X
Argentina beef	XX	X	XX	X	X	X

XX = Dominant linkage

Once again, it can not be over-emphasized that the smooth flow between producers, marketers and end users is essential. However it must also be noted that unless strong relationships or contracts are built up and product qualities maintained, the smooth flow can be interrupted should a more competitive supplier enter the market. This also can occur by Government decree, or by the erection of non-tariff barriers to trade. By improving strict hygiene standards a marketing chain can be broken, however strong the link, by say, Government. This, however, should not occur, if the link involves the close monitoring and action by the various players in the system, who are aware, through market intelligence, of any possible changes.

Chapter Summary

Having done all the preparatory planning work (no mean task in itself!), the prospective global marketer has then to decide on a market entry strategy and a marketing mix. These are two main ways of foreign market entry either by entering from a home market base, via direct or indirect exporting, or by foreign based production. Within these two possibilities, marketers can adopt an "aggressive" or

"passive" export path.

Entry from the home base (direct) includes the use of agents, distributors, Government and overseas subsidiaries and (indirect) includes the use of trading companies, export management companies, piggybacking or countertrade. Entry from a foreign base includes licensing, joint ventures, contract manufacture, ownership and export processing zones. Each method has its peculiar advantages and disadvantages which the marketer must carefully consider before making a choice.

Key Terms

Aggressive exporter	Exporting	Licensing
Barter	Export processing zones	Market entry
Countertrade	Joint ventures	Passive exporter

Review Questions

1. Review the general problems encountered when building market entry strategies for agricultural commodities. Give examples.
2. Describe briefly the different methods of foreign market entry.
3. What are the advantages and disadvantages of barter, countertrade, licensing, joint venture and export processing zones as market entry strategies?

Review Question Answers

1. General problems:

- i) Interlinking of production and marketing means private investment alone may not be possible, so Government intervention may be needed also e.g. to build infrastructure e.g. Israeli fresh fruit.
- ii) Licensing

Definition:

Method of foreign operation whereby a firm in one country agrees to permit a company in another country to use the manufacturing, processing, trademark, knowhow or some other skill by the licensor.

- ii) "Lumpy investment" building capacity long before it may be currently utilised e.g. port facilities

Advantages:

- entry point with risk reduction,
 - benefits to both parties,
 - capital not tied up,
 - opportunities to buy into partner or royalties on the stock.
- iii) Time - processing, transport and storage - so credit is needed e.g. Argentina beef.
- iv) Transaction costs - logistics, market information, regulatory enforcement.

Disadvantages:

- limited form or participation,

- potential returns from marketing and manufacturing may be lost,
- partner develops knowhow and so license is short,
- partner becomes competitor,
- requires a lot of planning beforehand.

v) Risk - business, non-business

iv) Joint ventures -

Definition:

An enterprise in which two or more investors share ownership and control over property rights and operation.

vi) Building of relationships and infrastructural developments "correct formats"

2. Different methods

These are either "direct", "indirect" or "foreign" based.

Advantages:

- sharing of risk and knowhow,
- may be only means of entry,
- may be source of supply for third country.

Direct - Agent, distributor, Government, overseas subsidiary

Disadvantages:

- partners do not have full control or management,
- may be impossible to recover capital,
- disagreement between purchasers or third party - served markets,
- partners have different views on exported benefits.

Indirect - Trading company, export management company, piggyback, countertrade

v) Export processing zones -

Definition:

A zone within a country, exempt from tax and duties, for the processing or reprocessing of goods for export

Foreign - Licensing, joint venture, contract manufacture, ownership, export processing zone.

Students should give a definition and expand on each of these methods.

Advantages:

- host country obtains knowhow,
- capital, technology, employment opportunities;
- foreign exchange earnings;
- "reputation", "internationalisation".

3i) Barter-

Definition:

Direct exchange of one good for another. (may be straight or closed or clearing

account method)

Disadvantages:

- short term investments,
- capital movements,
- employment movements,
- transaction costs and benefits,
- not part of economy so alienisation,
- labour laws may be different,
- bureaucracy creation.

Advantages:

- simple to administer,
- no currency,
- commodity based valuation or currency based valuation.

Disadvantages:

- risk of non delivery,
- poor quality,
- technological obsolescence,
- unfulfilled quantities,
- risk of commodity price rise thus losing out on an increased valuation,
- depressed valuation,
- marketability of products.

ii) Countertrade -

Definition:

Customer agrees to buy goods on condition that the seller buys some of the customer's own products in return (may be time, method of financing, balance of compensation or pertinence of compensating product based)

Advantages:

- method of obtaining sales by seller and getting a slice of the order,
- method of breaking into a "closed" market.

Disadvantages:

- not covered by GATT,
- so dumping may occur,
- usuality differences, variety differences,
- difficult to set price and service quality,
- inconsistency of delivery and specification,
- difficult to revert to currency trading.

Exercise 7.1 Market entry strategies

Take a major non-traditional crop or agricultural product which your country produces with sales potential overseas. Devise a market entry strategy for the product, clearly showing which you would use and justify your choice indicating why the method chosen would give benefits to your country and the intended importing country(s).

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Chapter 8: Product Decisions

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Decisions regarding the product, price, promotion and distribution channels are decisions on the elements of the "marketing mix". It can be argued that product decisions are probably the most crucial as the product is the very epitome of marketing planning. Errors in product decisions are legion. These can include the imposition of a global standardised product where it is inapplicable, for example large horsepower tractors may be totally unsuitable for areas where small scale farming exists and where incomes are low; devolving decisions to affiliated countries which may let quality slip; and the attempt to sell products into a country without cognisance of cultural adaptation needs. The decision whether to sell globally standardised or adapted products is too simplistic for today's market place. Many product decisions lie between these two extremes. Cognisance has also to be taken of the stage in the international life cycle, the organisation's own product portfolio, its strengths and weaknesses and its global objectives. Unfortunately, most developing countries are in no position to compete on the world stage with many manufactured value-added products. Quality, or lack of it, is often the major letdown. As indicated earlier, most developing countries are likely to be exporting raw materials or basic and high value agricultural produce for some time to come.

Chapter Objectives

The objectives of this chapter are

- To examine the basic concepts of "the product" and the importance of this concept in marketing
- To give an understanding of the features of product design and the factors which shape the "standardisation" versus "adaptation" decisions
- To describe the production process and how value can be added in the process

- To describe the major product strategies.

Structure Of The Chapter

The chapter starts by examining the basic concepts of the "product" including its physical (or objective) features and its image (or subjective) features. Once the product is put into the design stage based on consumer research, then a decision has to be made on its form - either globally standardised or adapted to local conditions. Of course, with many agricultural cash and food crops its form may stay the same (standard), for example an orange, or it may be adapted (frozen orange juice) to meet different market needs and conditions. The chapter concludes by looking at the different types of product strategies, varying from a global approach to a micro-marketing approach at national level.

Basic concepts

A product can be defined as a collection of physical, service and symbolic attributes which yield satisfaction or benefits to a user or buyer. A product is a combination of physical attributes say, size and shape; and subjective attributes say image or "quality". A customer purchases on both dimensions. As cited earlier, an avocado pear is similar the world over in terms of physical characteristics, but once the label CARMEL, for example, is put on it, the product's physical properties are enhanced by the image CARMEL creates. In "postmodernisation" it is increasingly important that the product fulfills the image which the producer is wishing to project. This may involve organisations producing symbolic offerings represented by meaning laden products that chase stimulation-loving consumers who seek experience - producing situations. So, for example, selling mineral water may not be enough. It may have to be "Antarctic" in source, and flavoured. This opens up a wealth of new marketing opportunities for producers.

A product's physical properties are characterised the same the world over. They can be convenience or shopping goods or durables and nondurables; however, one can classify products according to their degree of potential for global marketing:

- i) local products - seen as only suitable in one single market.
- ii) international products - seen as having extension potential into other markets.
- iii) multinational products - products adapted to the perceived unique characteristics of national markets.
- iv) global products - products designed to meet global segments.

Quality, method of operation or use and maintenance (if necessary) are catchwords in international marketing. A failure to maintain these will lead to consumer dissatisfaction. This is typified by agricultural machinery where the lack of spares and/or foreign exchange can lead to lengthy downtimes. It is becoming increasingly important to maintain quality products based on the ISO 9000 standard, as a prerequisite to export marketing.

Consumer beliefs or perceptions also affect the "world brand" concept. World brands are based on the same strategic principles, same positioning and same marketing mix but there may be changes in message or other image. World brands in agriculture are legion. In fertilizers, brands like Norsk Hydro are universal; in tractors, Massey Ferguson; in soups, Heinz; in tobacco, BAT; in chemicals, Bayer. These world brand names have been built up over the years with great investments in marketing and production. Few world brands, however, have originated from developing countries. This is hardly surprising given the lack of resources. In some markets product saturation has been reached, yet surprisingly the same product may

not have reached saturation in other similar markets. Whilst France has long been saturated by avocados, the UK market is not yet, hence raising the opportunity to enter deeper into this market.

Product design

Changes in design are largely dictated by whether they would improve the prospects of greater sales, and this, over the accompanying costs. Changes in design are also subject to cultural pressures. The more culture-bound the product is, for example food, the more adaptation is necessary. Most products fall in between the spectrum of "standardisation" to "adaptation" extremes. The application the product is put to also affects the design. In the UK, railway engines were designed from the outset to be sophisticated because of the degree of competition, but in the US this was not the case. In order to burn the abundant wood and move the prairie debris, large smoke stacks and cowcatchers were necessary. In agricultural implements a mechanised cultivator may be a convenience item in a UK garden, but in India and Africa it may be essential equipment. As stated earlier "perceptions" of the product's benefits may also dictate the design. A refrigerator in Africa is a very necessary and functional item, kept in the kitchen or the bar. In Mexico, the same item is a status symbol and, therefore, kept in the living room.

Factors encouraging standardisation are:

- i) economies of scale in production and marketing
- ii) consumer mobility - the more consumers travel the more is the demand
- iii) technology
- iv) image, for example "Japanese", "made in".

The latter can be a factor both to aid or to hinder global marketing development. Nagashima¹ (1977) found the "made in USA" image has lost ground to the "made in Japan" image. In some cases "foreign made" gives advantage over domestic products. In Zimbabwe one sees many advertisements for "imported", which gives the product advertised a perceived advantage over domestic products. Often a price premium is charged to reinforce the "imported means quality" image. If the foreign source is negative in effect, attempts are made to disguise or hide the fact through, say, packaging or labelling. Mexicans are loathe to take products from Brazil. By putting a "made in elsewhere" label on the product this can be overcome, provided the products are manufactured elsewhere even though its company maybe Brazilian.

Factors encouraging adaptation are:

- i) Differing usage conditions. These may be due to climate, skills, level of literacy, culture or physical conditions. Maize, for example, would never sell in Europe rolled and milled as in Africa. It is only eaten whole, on or off the cob. In Zimbabwe, kapenta fish can be used as a relish, but wilt always be eaten as a "starter" to a meal in the developed countries.
- ii) General market factors - incomes, tastes etc. Canned asparagus may be very affordable in the developed world, but may not sell well in the developing world.
- iii) Government - taxation, import quotas, non tariff barriers, labelling, health requirements. Non tariff barriers are an attempt, despite their supposed impartiality, at restricting or eliminating competition. A good example of this is the Florida tomato growers, cited earlier, who successfully got the US Department of Agriculture to issue regulations establishing a minimum size of tomatoes marketed in the United States. The effect of this was to eliminate the Mexican tomato industry which grew a tomato that fell under the minimum size specified. Some

non-tariff barriers may be legitimate attempts to protect the consumer, for example the ever stricter restrictions on horticultural produce insecticides and pesticides use may cause African growers a headache, but they are deemed to be for the public good.

iv) History. Sometimes, as a result of colonialism, production facilities have been established overseas. Eastern and Southern Africa is littered with examples. In Kenya, the tea industry is a colonial legacy, as is the sugar industry of Zimbabwe and the coffee industry of Malawi. These facilities have long been adapted to local conditions.

v) Financial considerations. In order to maximise sales or profits the organisation may have no choice but to adapt its products to local conditions.

vi) Pressure. Sometimes, as in the case of the EU, suppliers are forced to adapt to the rules and regulations imposed on them if they wish to enter into the market.

Production decisions

In decisions on producing or providing products and services in the international market it is essential that the production of the product or service is well planned and coordinated, both within and with other functional area of the firm, particularly marketing. For example, in horticulture, it is essential that any supplier or any of his "outgrower" (sub-contractor) can supply what he says he can. This is especially vital when contracts for supply are finalised, as failure to supply could incur large penalties. The main elements to consider are the production process itself, specifications, culture, the physical product, packaging, labelling, branding, warranty and service.

Production process

The key question is, can we ensure continuity of supply? In manufactured products this may include decisions on the type of manufacturing process - artisanal, job, batch, flow line or group technology. However in many agricultural commodities factors like seasonality, perishability and supply and demand have to be taken into consideration. Table 8.1 gives a checklist of questions on product requirements for horticultural products as an example⁶

Table 8.1 Checklist of questions on product requirements by market

Existing sources of supply	Recommendations for new suppliers, or increased supply
Current important suppliers? Seasonality of supply, start of season, peak season and end of season? Packaging specifications, weight of produce per packaging unit, type of packaging? Grading and quality standards? Prices obtained and net profit returned to farmer, average price, maximum and minimum prices, effect of different quality standards on price? Problems with existing suppliers and produce? Volumes sold daily, monthly, annually? Popularity trend? Types of buyers and consumers? Use of crop? Factors affecting sales, e.g. weather, special festivals, day of arrival in market? Is the crop stored; if so where and by whom?	Best period of supply? Type and size of packaging material? Grading and quality standards: *acceptable size ranges? *whether different sized produce should be packed separately or jumble-packed? *state of ripeness and should produce of the same ripeness be packed together? *acceptable level of blemishes? *important appearance characteristics such as colour, variety, shape, presence of stalks, bunch size? Budget gross and net prices? Volumes required?

Frequency of shipment, best day and arrival time on market? Transport arrangements, e.g. whose responsibility is it to arrange transport? Storage arrangements, if any? Potential and techniques for developing sales?

Quantity and quality of horticultural crops are affected by a number of things. These include input supplies (or lack of them), finance and credit availability, variety (choice), sowing dates, product range and investment advice. Many of these items will be catered for in the contract of supply.

Specification

Specification is very important in agricultural products. Some markets will not take produce unless it is within their specification. Specifications are often set by the customer, but agents, standard authorities (like the EU or ITC Geneva) and trade associations can be useful sources. Quality requirements often vary considerably. In the Middle East, red apples are preferred over green apples. In one example French red apples, well boxed, are sold at 55 dinars per box, whilst not so attractive Iranian greens are sold for 28 dinars per box. In export the quality standards are set by the importer. In Africa, Maritim (1991)², found, generally, that there are no consistent standards for product quality and grading, making it difficult to do international trade regionally.

Culture

Product packaging, labeling, physical characteristics and marketing have to adapt to the cultural requirements when necessary. Religion, values, aesthetics, language and material culture all affect production decisions. Effects of culture on production decisions have been dealt with already in chapter three.

Physical product

The physical product is made up of a variety of elements. These elements include the physical product and the subjective image of the product. Consumers are looking for benefits and these must be conveyed in the total product package. Physical characteristics include range, shape, size, color, quality, quantity and compatibility. Subjective attributes are determined by advertising, self image, labelling and packaging. In manufacturing or selling produce, cognisance has to be taken of cost and country legal requirements.

Again a number of these characteristics is governed by the customer or agent. For example, in beef products sold to the EU there are very strict quality requirements to be observed. In fish products, the Japanese demand more "exotic" types than, say, would be sold in the UK. None of the dried fish products produced by the Zambians on Lake Kariba, and sold into the Lusaka market, would ever pass the hygiene laws if sold internationally. In sophisticated markets like seeds, the variety and range is so large that constant watch has to be kept on the new strains and varieties in order to be competitive.

Packaging

Packaging serves many purposes. It protects the product from damage which could be incurred in handling and transportation and also has a promotional aspect. It can be very expensive. Size, unit type, weight and volume are very important in packaging. For aircraft cargo the package needs to be light but strong, for sea cargo containers are often the best form. The customer may also decide the best form of packaging. In horticultural produce, the developed countries often demand blister

packs for mangetouts, beans, strawberries and so on, whilst for products like pineapples a sea container may suffice. Costs of packaging have always to be weighed against the advantage gained by it.

Increasingly, environmental aspects are coming into play. Packaging which is non-degradable - plastic, for example - is less in demand. Bio-degradable, recyclable, reusable packaging is now the order of the day. This can be both expensive and demanding for many developing countries.

Labelling

Labelling not only serves to express the contents of the product, but may be promotional (symbols for example Cashel Valley Zimbabwe; HJ Heinz, Africafé, Tanzania). The EU is now putting very stringent regulations in force on labelling, even to the degree that the pesticides and insecticides used on horticultural produce have to be listed. This could be very demanding for producers, especially small scale, ones where production techniques may not be standardised. Government labelling regulations vary from country to country. Bar codes are not widespread in Africa, but do assist in stock control. Labels may have to be multilingual, especially if the product is a world brand. Translation could be a problem with many words being translated with difficulty. Again labelling is expensive, and in promotion terms non-standard labels are more expensive than standard ones. Requirements for crate labelling, etc. for international transportation will be dealt with later under documentation.

Branding and trademarks

As mentioned in chapter four, it is difficult to protect a trademark or brand, unless all countries are members of a convention. Brand "piracy" is widespread in many developing countries.

Other aspects of branding include the promotional aspects. A family brand of products under the Zeneca (ex ICI) label or Sterling Health are likely to be recognised worldwide, and hence enhance the "subjective" product characteristics.

Warranty

Many large value agricultural products like machinery require warranties. Unfortunately not everyone upholds them. It is common practice in Africa that if the original equipment has not been bought through an authorised dealer in the country, that dealer refuses to honour the warranty. This is unfortunate, because not only may the equipment have been legitimately bought overseas, it also actually builds up consumer resistance to the dealer. When the consumer is eventually offered a choice, the reticent dealer will suffer. For example when new dealers spring up.

Case 8.1 Cotton Production/Marketing Interface

Spinners

Machines are highly flexible, that is they can usually switch to a variety of yarn requirements. The machines are geared to high production, are automated and are of a precision for constant quality provision. There are strict process controls and built-in quality control. Poor raw material, especially when contaminated with metal particles, damages opening mills, grid knives, fans and card clothing. Previous devices employed to remove these (magnets) are becoming less effective. The consequences are damage in the blowroom and carding and danger of fire. Quality is therefore defined as properties of the end use (clothing etc.), efficiency of weaving and knitting and the efficient running of the spinning plant. Spinners require raw cotton which is free of trash, dust, sugar and honey dew contamination, seed coats, bark and foreign fibres and, will not nep the cloth. Further requirements are a certain length (could be short, medium or long), uniformity of length, strength, fineness, maturity and a certain elongation and colour.

Suppliers

In order to meet these high quality demands, the growers have to ensure that the production, picking and ginning is of a very high standard.

Cotton grading

The Liverpool Cotton exchange, for one, relied on the skills of its experts to manually classify raw fibre purchases for its clients. It still holds the "standards" for length, colour and trash content. As well as the demands of modern machinery, the lack of standardised measuring and cotton classification procedures has resulted in commercial conflict and legal disputes about the true nature of traded cotton. Now, computer based high volume instrument listing systems of raw cotton (HVI systems) are available. The system can handle large numbers of bales, reduce variation in classification and the need for highly trained bale classifiers.

For cotton exporters the system offers the following advantages:

- enhanced objectivity in classification
- improve communication if similar systems are used by sellers or buyers
- reduced conflict and need for arbitration
- enhanced competitiveness against synthetic fibres
- improved integration with modern spinning machines
- reduced costs on training of experts and in measuring time.

The system can process 2000 bales per day and give a printout on the seven parameters of grading. These include length and length uniformity, strength and elongation, micronaire or fineness, leaf and colour. Manufacturers include SPINLAR INC. of Knoxville, USA.

Service

In agricultural machinery, processing equipment and other items which are of substantial value and technology, service is a prerequisite. In selling to many developing countries, manufacturers have found their negotiations at stake due to the poor back-up service. Often, this is no fault of the agent, distributor or dealer in the foreign country, but due to exchange regulations, which make obtaining spare parts difficult. Many organisations attempt to get around this by insisting that a Third World buyer purchases a percentage of parts on order with the original items. Allied to this problem is the poor quality of service due to insufficient training. Good original equipment manufacturers will insist on training and updating as part of the agency agreement. In order to illustrate the above points, cotton can be used as an example. Cotton is a major foreign exchange earner for Zimbabwe. In 1990/91, 52,000 tonnes were sold overseas at a value of Zim\$ 238 million. As the spinners, particularly those in the export market, are in a highly competitive industry, it is essential that the raw material is as clean as possible. Also today's spinning equipment is highly technical and the spinner wishes to avoid costly breakdowns by all means.

Product strategies

There are five major product strategies in international marketing.

Product communications extension

This strategy is very low cost and merely takes the same product and communication strategy into other markets. However it can be risky if misjudgments are made. For example CPC International believed the US consumer would take to dry soups, which dominate the European market. It did not work.

Extended product - communications adaptation

If the product basically fits the different needs or segments of a market it may need

an adjustment in marketing communications only. Again this is a low cost strategy, but different product functions have to be identified and a suitable communications mix developed.

Product adaptation - communications extension

The product is adapted to fit usage conditions but the communication stays the same. The assumption is that the product will serve the same function in foreign markets under different usage conditions.

Product adaptation - communications adaptation

Both product and communication strategies need attention to fit the peculiar need of the market.

Product invention

This needs a totally new idea to fit the exclusive conditions of the market. This is very much a strategy which could be ideal in a Third World situation. The development costs may be high, but the advantages are also very high.

Table 8.2 summarises the strategic alternatives with examples⁴.

The choice of strategy will depend on the most appropriate product/market analysis and is a function of the product itself defined in terms of the function or need it serves, the market defined in terms of the conditions under which the product is used, the preferences of the potential customers and the ability to buy the product in question, and the costs of adaptation and manufacture to the company considering these product - communications approaches.

Table 8.2 International strategic alternatives

Product strategy	Communications strategy	Product/functions Met	Conditions of product use	Examples
1 Extension	Extension	Same	Same	Pepsi
2 Extension	Adaptation	Different	Same	Soups
3 Adaptation	Extension	Same	Different	Agriculture chemicals
4 Adaptation	Adaptation	Different	Different	Farm implements
5 Invention	New	Same	-	Tyson turbine water pump
				Thailand tuna

CASE 8.2. Thailand Tuna

The case of Thai Tuna is a good example of the fifth product strategy alternative. In 1980 world canned tuna imports stood at some 110,000 tons, world consumption was stagnant, prices depressed and rising operating costs were leading to the closure of the tuna processing facilities in the US, Japan and Europe. However, up to 1990, world tuna imports quadrupled to 437,000 tons with large scale canning operations shifting to several lower cost developing countries.

No country experienced the dramatic development more than Thailand. In 1980 it did not export one single can. In 1990, Thailand exported 225,000 tons (51% of world market share) with a gross value in 1989 of US\$ 537 million. The Thai industry development was rapid and interesting because it was based on imported raw materials. Tuna landings by Thai vessels rarely exceeded 30,000 tons, whilst its imports of foreign tuna (mostly skipjack) has increased past the 250,000 ton mark. The reason for this was the shift in fishing patterns. Historically the eastern Atlantic and Pacific were the most important areas but in the 1970s,

US vessels began to exploit the tuna shoals of the Western Pacific and European vessels the Indian Ocean. The result was the increase of landings from 1,7 million tons in 1980 to 2,5 million tons in 1988, but a significant drop in prices accompanied this increase. Thailand was in a position to capitalise on these new low cost suppliers and in the early to mid 1980s several fruit and vegetable canners and other entrepreneurs invested in large modern processing facilities specially for fish. Their operating costs were kept low by efficient management, low cost labour, backward integration into production and the efficient use of by products from processing. This was basically an "invention" product strategy. In order to gain access to and capitalise on the expanding markets in the US and Europe (except France which favoured Francophone African suppliers) Thai canners entered into packaging arrangements with American and European firms. Latter, Thailand's largest processor took over the third largest tuna canner in the US, enabling it to take advantage of the latter's exclusive distribution network and well-established brand names.

As well as the above, organisations have also to consider the international product life cycle (described in section one) and the "fit" of the strategy into the company's portfolio, strengths and weaknesses. In launching new products into international markets, the international product life cycle concept is crucial. Comparative analysis is a very useful technique also for new product introduction. The idea behind this concept is that if underlying conditions existing in one country are similar to those in another then there is a likelihood of a product being successfully introduced. On the other hand, again as indicated in chapter one, the international life cycle can work against domestic producers. The introduction of a second country product into a first country which has had a "closed economy" can sometimes kill off local production if that local producer cannot respond to the imported product's competitiveness. The case of Sunsplash Zimbabwe is an example.

Product decisions epitomise marketing planning and are the manifestation of marketing strategy. These decisions are not to be taken lightly. The end consumer and channel considerations have to be taken into account and the product extended or adapted accordingly.

Case 8.3 Imported Juice Helps To Kill Off Sunsplash

A fruit juice processor, Sunsplash, has stopped production of juices following declining business, leaving 15 people without employment.

Company director Mr. Michael Willmore said production ceased at the end of last month, adding that the Sunsplash range of fruit juices would be available over the next four months until remaining stocks had been exhausted.

The factory had, since its establishment in 1984, processed a variety of fruit juices for the Zimbabwean market.

Mr. Willmore said high transport costs as well as competition from imported products had affected the viability of the company, which had been established in Masvingo in response to Government calls for industry to decentralise.

"The introduction of (imported) products into the Zimbabwean market rapidly eroded our market share from over 1 million litres to a mere 450 000 litres annually. By simple statement of fact, Sunsplash was not viable on the reduced volume."

He also criticised the lack of incentives in Masvingo, particularly for new investors.

*In my opinion, both central government and local municipal authorities will have to offer industries more attractive incentives to invest in Masvingo", he said.

He said incentives such as lax exemptions offered at growth points and Export Processing Zones (EPZ) would be more ideal for Masvingo because it was well located from the Mozambican port of Beira as well as South Africa.

This made the town an ideal location for EPZs.

Mr. Willmore, however, added that the demise of Sunsplash was more complicated than

more proximity to major markets.

"The company desperately needed to make me transition to aseptic packaging, a technology which enables fruit juices to be processed without the use of chemical preservatives while providing an unrefrigerated shelf life of six months,

The innovation would have greatly enhanced the product and provided export potential, but regrettably, cashflow constraints within our holding company (Afdis), combined with high interest rates, made the \$5,8 million investment unviable".

Chapter Summary

The marketing mix, which is the means by which an organisation reaches its target market, is made up of product, pricing, distribution, promotion and people decisions. These are usually shortened to the acronym "5P's". Product decisions revolve around decisions regarding the physical product (size, style, specification, etc.) and product line management.

Product decisions are based on how much the organisation has to adjust the product on the standardisation - adaptation continuum to differing market conditions. This results in the evolution of five basic strategic alternatives - extension; extension, adaptation; adaptation, extension; adaptation and invention. Extension is the nearest to a standardised product, communications strategy and Invention at the other end of the continuum, that is, an adaptation strategy. The more adaptive the policy the more costly it will be for the organisation.

Key Terms

Adaptation	Local products	Product strategies
Global products	Multinational products	Standardisation
International products	Product	-

Review Questions

1. What factors are important in the standardisation versus adaptation product decision process?
2. Describe the principle elements of "the product". Give examples.
3. Describe, with examples, the five major product strategies available to global marketers.

Review Question Answers

1. Factors

a) Standardisation

- Economies of scale
- Production and Marketing
- Consumer mobility
- Technology
- Image, e.g. "Made in Japan"

b) Adaptation

- Differing usage conditions
- Market factors
- Government - taxation, quotas etc.
- History e.g. colonialism
- Financial considerations

- Pressure, e.g. regulations

2. Product

Specification, e.g. quality standards, style, colour, shape. Image, e.g. advertising

- Advertising
- Labelling
- Branding
- Trademark
- Warranty
- Service

3. Product strategies

- Product communications extension e.g. Pepsi
- Extended product, communications adaptation, e.g. soups
- Product adaptation, communications extension, e.g. agrochemicals
- Product adaptation, communications adaptation, e.g. farm implements
- Product invention, e.g. Thai tuna

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Chapter 9: Pricing And Financing

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Pricing products or services in international marketing is not an easy decision. Price is, in part, a function of cost, and the foreign exchange rate is an important determinant of a company's cost of production. When borrowing capital to do business the cost of that capital can be very influential in the price decision. Take, for example, the export of maize. Firstly the crop has to be bought from the producers. If we assume that the system is state owned, or administered by a Board, money has to be raised. The money may be raised locally, say by the issue of bills, or on the international market. The cost of capital has to be included in the price as well as the possible effect of changes in exchange rates if the capital is raised internationally. When the maize is bought, part of the surplus may be sold on the international market. If it is not sufficient to cover the whole of the production, financing and marketing costs, then the system is in trouble. This scenario has indeed been the case in many African nations in a number of commodity fields.

Chapter Objectives

The objectives of this chapter are:

- To describe the elements of the International Financial System
- To give an understanding of the sources of funds available to finance operations and their impact on prices
- To examine the elements involved in the pricing of products and services

- To look in detail at the options, hedges and futures markets
- To show the interrelatedness of all the above in pricing decisions.

Structure Of The Chapter

The chapter begins with a brief description of the international financial system and then describes the methods of pricing. In order to mark up prices, not only has the material and labour to be considered, important as these are, but also the cost of capital. The chapter, therefore, goes into detail on the issues of funds, both internal and external. An increasing feature of global marketing is the futures market. So the chapter concludes with a detailed analysis of options, hedges and futures.

The international financial system

When conducting business across international boundaries, and dealing with foreign exchange, the risks rise enormously, especially the impact on financial resources and decisions, and particularly on pricing strategy. Foreign exchange is the way business can be conducted across national boundaries. Customers buy value, reflected in the price and intangible attributes of the product. Price is a function of cost in part, and foreign exchange affects the cost position. Foreign exchange rates, therefore, directly impact on the production quality and effectiveness of a company's marketing effort.

Post war Europe

In 1944, the Allies met at Bretton Woods to create an international monetary framework that would support post war construction and economic growth. Subsequently two organisations developed, the International Bank for Reconstruction and Development (IBRD or World Bank) which was chartered to help war-torn countries' economic reconstruction and the International Monetary Fund (IMF) which was chartered to oversee the management of the international financial system. The main elements were fiscal exchange rates for all currencies, tight bands of fluctuation around the pegged rates, a dollar defined in gold equivalent and controlled adjustment in fixed exchange values. In 1971 the gold system collapsed because of the US balance of payments deficit. Particularly, the Third World was accumulating dollars and they far exceeded the US supply of gold.

Today's system

What emerged from the collapse was a managed dirty float (due to supply and demand) with special drawing rights (SDR). "Dirty" refers to actions by governments participating in exchange rates to influence rates, "managed" refers to the effort by governments to influence exchange rates with fiscal or monetary policy instruments. SDRs were created by the IMF to supplement the dollar and gold reserves. Its allocation is based on a formula which takes into account factors such as share of world trade and can be used to help balance of payments situations or settle financial obligations like swaps, donations and security for financial obligations.

Most countries of the world are members of the IMF which, amongst its many functions, exercises surveillance over exchange rate policies of members, manages the SDR, provides temporary balance of payment assistance and technical assistance.

Foreign exchange

Foreign exchange is currency bought or sold in the foreign exchange market. The "market" is the total of persons who buy and sell and involves various financial and other institutions. The "spot" market is for the immediate delivery, or in the interbank market within two business days, of foreign exchange. The forward market is for

future delivery. The principal players are the banks (interbank market) and others including the London International Futures Exchange (LIFE). London, New York and Tokyo are the major markets with a turnover worldwide in excess of US\$ 200 billion per day.

The foreign exchange market is very dynamic. The price of one currency in any other currency is the result of forces of supply and demand in the foreign exchange market. The demand for one currency may be due to consumers wishing to buy from overseas or a belief that one country's currency is stronger than another's. In Africa, where exchange controls occur in some countries, this can lead to an official or unofficial black market. Also currency allocation is a feature which tends to slow down business or hinder its development.

If a country sells more than it buys, its currency value will rise and vice versa. If foreign exchange rates were set simply by money exchanged for goods and services then forecasting exchange rates would be easy. However, short and long term capital flows, speculative purchases and sales distort the picture.

Governments intervene to dampen fluctuation in exchange rates. Often they get involved in extensive trading to stem the rise in currency value so exports are not harmed.

Forecasting exchange rates

Exchange rates are very difficult to forecast due to a multitude of factors. Forecasts are, therefore, a continuation of economic analysis and judgement.

In forecasting foreign exchange rates it is important to take account of purchasing power parity (PPP), that is, one unit of currency should buy the same amount of goods and services as it bought in an equilibrium period, despite differential rates of inflation. The lower the level of inflation, the greater will be the PPP effect. If prices in local currency rise faster or more slowly than prices in the rest of the world, an equal adjustment of the exchange value of the currency in the opposite direction will restore equilibrium to relative price levels. The formula to calculate the PPP impact and exchange rate is:

$$S_{t+1} = (S_t) \times \frac{1 + i_n}{1 + i_r}$$

where

S_t = the spot rate of exchange in the number of units of the home currency equal to one unit of the foreign currency

i_n = the inflation rate in the home country

i_r = the inflation rate in the foreign country

t = the base period or the present time

$t+1$ = the future time period as defined.

For example assume that the exchange rate between Zimbabwe and the UK is Zim\$ 10 = UK£ 1. Assume that the rate of inflation in the UK is 5% per annum, and that the rate of inflation in Zimbabwe is 30% per annum. Applying the above formula, the exchange rate after one year is (UK home country):

$$S_{t+1} = 0.1 \times \frac{1.05}{1.30} = 0.1 \times 0.8$$

$$S_{t+1} = 0.08$$

$$\text{or UK£} = \text{Zim\$ } 1$$

or **UK£ 1 = Zim\$ 12.5**

Unfortunately as levels of inflation are difficult to predict and foreign exchange transactions are other than solely for purchasing goods and services, the PPP is not a very reliable forecasting technique. Other factors affect the foreign rate of exchange other than just PPP. These are:

- economic factors - balance of payments, monetary and fiscal policy, inflation, real and nominal interest rates, government controls and incentives, etc.
- political factors - philosophy of leaders, elections
- psychological factors - expectations, forward market prices, traders' attitudes.

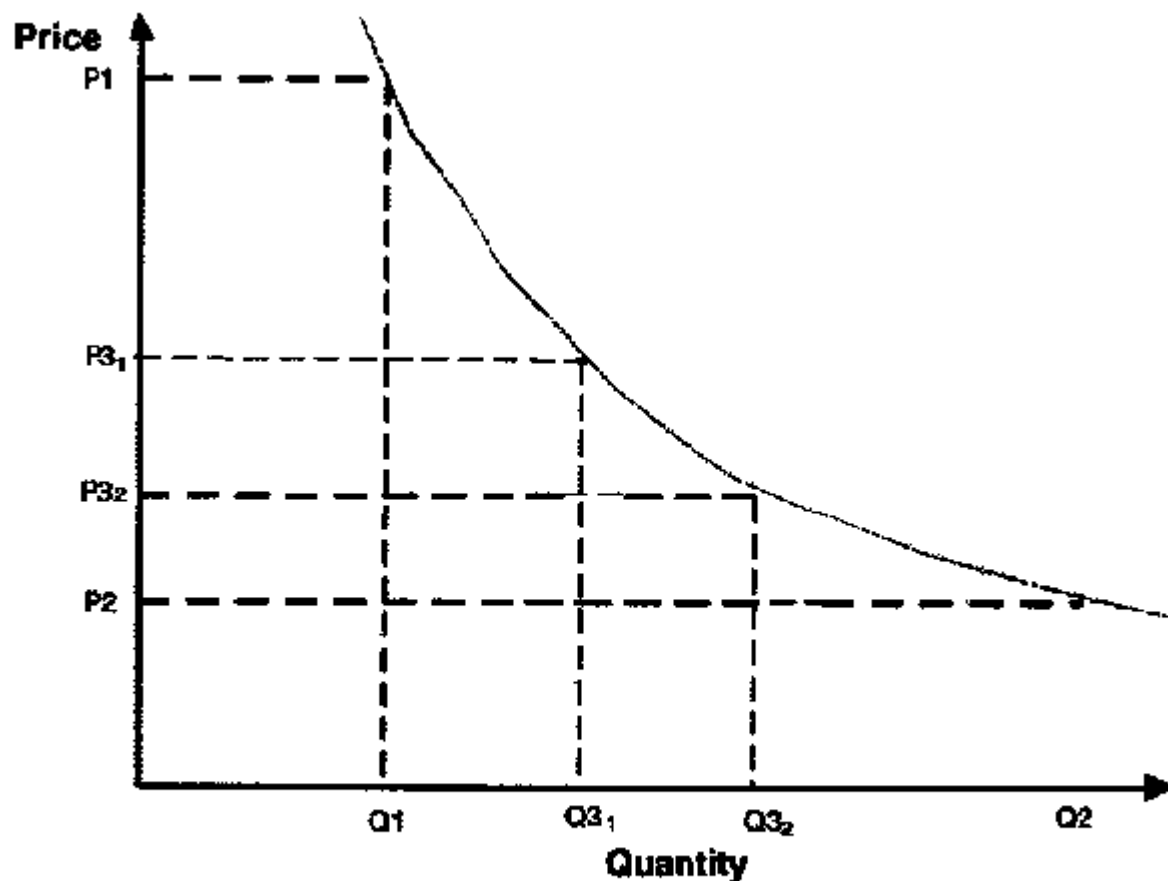
One of the issues in analysing a country's competitive position is the critical adjustment of the exchange value of a country's currency. The index is a trade weighted index (based on world trade share). Indices are issued by various bodies like the IMF.

Pricing products

Three basic factors determine the boundaries of the pricing decision - the price floor, or minimum price, bounded by product cost, the price ceiling or maximum price, bounded by competition and the market and the optimum price, a function of demand and the cost of supplying the product. In addition, in price setting cognisance must be, taken of government tax policies, resale prices, dumping problems, transportation costs, middlemen and so on. Whilst many agricultural products are at the mercy of the market (price takers) others are not. These include high value added products like ostrich, crocodile products and hardwoods, where demand outstrips supply at present.

In setting prices, it must be made clear what the objectives and policy are. Few organisations can now be pure profit maximisers - there is hardly a sector of industry where competition, or potential competition is not prevalent. Three frequently encountered price policies are market penetration, skimming and holding. A low price (penetration) is a volume policy. A high price (skimming) is used if the product is fairly unique, development costs are high and demand is relatively inelastic. Market holding is a strategy intended to hold share. Here products are not based on straight exchange rates at current rates but on what the market can bear. The three price policies are illustrated in figure 9.1.

Figure 9.1 Pricing policies



P1 Q1 = Price skimming **P31 Q31 = Price market holding**
P2 Q2 = Price penetration **P32 Q32 = Price market holding**

The assumption behind all three pricing policies is that the underlying conditions governing supply and demand apply. In reality, these do not always do so, if indeed ever.

Export pricing

Actual pricing methods are usually cost, market, or competition oriented. However, in the international arena, other factors come into play.

Cost plus pricing: There are basically two types under this heading, the historical accounting cost method and the estimated future cost method. The former includes direct and indirect costs and has the disadvantage of ignoring demand and competitive position in the target market. Estimated cost approaches are based on assumptions of production volume (depending on process) which will be a principal factor determining costs. Again difficulties may lie in trying to estimate production levels. In reality, costs may be a useful starting point but should never be used as a final arbiter.

Competitive pricing: Whilst costs are important they should be looked at alongside the prices of competitive products in the target markets. Once these price levels have been established the base price, or price that the buyer will pay for the product, can be determined. This involves four steps:

- i) estimation of demand schedules
- ii) estimation of incremental and full manufacturing and marketing costs to achieve projected sales volumes
- iii) selection of price which offers the highest contribution

iv) inclusion of other elements of the marketing mix. These steps are by no means easy. Costs are difficult to assess properly as are demand conditions.

In products of a raw commodity nature or those traded on the international market subject to world prices, often the producer has no alternative but to take the going price - a price governed by competition, especially on the supply side. In Malawi, for example, although tobacco prices internationally may be encouraging, if too many farmers grow it, the price will be suppressed for all.

Market pricing: In certain products one can charge "what the market can bear". If the supplier is one of a few, despite all the problems associated with price fixing, the market may be able to bear a high price. If, as in Africa, an export crop fails, then other suppliers can take advantage of this to charge higher prices for a similar export crop. This was the case, a few years ago, with the Kenyan avocado market. An Israeli crop failure gave an unprecedented boost to Kenya's price and production.

In other cases the product may be so unique that the company should capitalise on its rarity by charging a high price. At one time exotic produce like Malaysian starfruit and rambutans could command a high price due to their scarcity. The problem is, encouraged by the profit margins, more entrants are drawn into the market.

Price escalation

One major feature of international pricing is the increase on the price due to the application of duties and so on (see table 9.1).

Table 9.1 Price escalation

Target price in foreign markets	25.00
Less 40% retail margin on selling price	10.00
Retailer cost	15.00
Less 75% importer/distributor marking up cost	1.96
Distributor cost	13.04
Less 12% value added tax on landed value and duty	1.40
CIF value plus duty	11.64
Less 9% duty on CIF value	0.96
Landed CIF value	10.68
Less ocean freight and insurance	1.40
Required FOB price to achieve target price	9.26

If 9.26 is less than the domestic price, the firm has alternatives:

- i) forget about exporting
- ii) consider marginal pricing
- iii) shorten the distribution channel
- iv) modify or simplify product if possible
- v) find an alternative source of supply with lower cost.

Dumping

Dumping, as defined by GATT, is the difference between the normal domestic price and the price at which the product leaves the exporting country. A discussion on dumping has been given fully in chapter four.

Devaluation and revaluation

Devaluation is the reduction and revaluation an increase in the value of one currency vis à vis other currencies. Under the floating exchange rate system devaluation and revaluation occur when currency values adjust in the exchange rate system in response to supply and demand. The idea behind devaluation is to make the domestic price more competitive and so more of the product can be bought for the same foreign currency. However, it can be negated by the higher price and costs induced by inboard goods and services which make up the export product. If the product is inelastic in demand, prices can be maintained if the competitive position is strong.

In revaluation, the revaluing country's prices are more expensive. These price increases may be passed on to the customers, absorbed or the domestic price may be reduced.

Inflation

Inflation is a world wide phenomenon, and requires periodic price adjustments. Inflation accounting methods attempt to deal with the phenomenon. It is essential to retain gross and operating profit margins. Actions to maintain margins are subject to government controls (a typical African situation is where governments use price or selective price controls rather than rooting out the underlying causes of inflation or foreign exchange shortages), competitive behaviour and the market itself. Price adjustments may affect the demand for products, and this is the ultimate arbiter of price alterations.

Transfer pricing

Transfer pricing is more appropriate to those organisations with decentralised profit centres. Transfer pricing is used to motivate profit centre managers, provide divisional flexibility and also further corporate profit goals. Across national boundaries the system gets complicated by taxes, joint ventures, attitudes of governments and so on. There are four basic approaches to transfer pricing.

- Transfer at cost: few practise this, which recognises foreign affiliates contribute to profitability by operating domestic scale economies. Prices may be unrealistic so this method is seldom used.
- Transfer at direct cost plus overheads and margin. Similar to that in transfer at cost.
- Transfer at a price derived from end market prices: very useful strategy in which market based transfer prices and foreign sourcing are used as devices to enter markets too small for supporting local manufacturers. This gives a valuable foothold.
- Transfer at an "arm's length": this is the price that would have been reached by unrelated parties in a similar transaction. The problem is identifying a point "arm's length" price for all products other than commodities. Pricing at "arm's length" for differentiated products results not in a specific price but prices which fall in a predeterminable range.

Many governments see transfer pricing as a tax evasion policy and have, in recent years, looked more closely at company returns. Rates of duty encourage the size of the transfer price: the higher the duty rate the more desirable a lower transfer price. A low income tax creates a pressure to raise the transfer price to locate income in the low tax setting. Harmonisation of tax rates worldwide may make the intricacies of transfer pricing obsolete.

Government controls, like cash deposits on importers, give an incentive to minimise the price of the imported item. Profit transfer rules may apply which restrict the

amount of profit transferred out of the country. Other controls look at monopoly pricing like the case of the British Government against Hoffman-La Roche, forcing the price of its tranquilisers downwards.

Joint ventures

These present an incentive to transfer price goods at a higher rate than one that would have been used in transfer pricing goods to their own wholly owned affiliates because the company's share of the joint venture earnings is less than 100 percent. It is important, therefore, to work out an agreement in advance. The tax authorities' criteria of "arm's length" prices is probably the most appropriate for joint ventures.

Global pricing

There are three possible global pricing policies - extension (ethnocentric), adaptation (polycentric) and invention (geocentric).

Extension

The same global price. A very simple method but does not respond to market sensitivity.

Adaptation

Different prices in different markets. The only control is setting transfer prices within the corporate system. It prevents problems of arbitrage when the disparities in local market prices exceed the transportation and duty costs separating markets.

Innovation

A mix of a) and b). This takes cognisance of any unique market factor (s) like costs, competition, income levels and local marketing strategy. In addition it recognises the fact that headquarters price coordination is necessary in dealing with international accounts and arbitrage and it systematically seeks to embrace national experience.

Financing of exports

Financing exports is a major decision area and one of some considerable complexity. Sources of funds can be both internal and external to the organisation. Internal sources include subsidiaries and transfer within groups. External sources include the international money markets, factoring, leasing, hire purchase export credit guarantee schemes etc. A discussion on sources of funds is appropriate in a chapter on pricing as it is a "cost" which affects the end price and must be accounted for in selling prices.

Internal sources

The subsidiary: Self-funding obviates the need for currency transfers and avoids exchange rate fluctuations. It also lessens the burden on the parent company. The major problem may be the lack of sufficient funding which requires parent contribution.

Transfers within group: May take the form of loans, investment capital, material and/or licences. Remittances back in interest, dividends, etc. will depend on tax liability operating in the host country (see previous sections). Whilst transfers are a greater risk than internal subsidiary funding they are more flexible in dates of payment, direction (one subsidiary to another) and type and scale.

External sources

Host country borrowing: Offers two advantages. Firstly it reduces the loss if expropriation occurs and secondly, interest payments raised locally can be paid out of revenues, leaving only excesses for exposure to transfer risk.

Export credit schemes and pre and post-shipment support facility: Zimbabwe does not have guarantee facility. Malawi is in the process of setting one up, so the schemes available are described in the following sections.

Export credit guarantee facility: The export credit guarantee (ECG) facility contributes to the growth and diversification of an export base by providing collateral support through guarantees to the banks extending pre- or post-shipment financing to enterprises for non-traditional export production and sales. The facility will help such exporters to secure financing and the facility will increase confidence among foreign buyers that exporters can fulfill their contractual commitments as reliable suppliers.

The facility is expected to be financially self-supporting in the long run, which means that the guarantee fee income will have to cover administration costs and claim payments. In order to fulfill its export development function, however, certain risks and guarantee losses will be inevitable and will have to be accepted. Malawi's facility (below) serves as an example of an ECG scheme.

Malawi - Export Credit Guarantee System

Institutional set-up

The implementing and managing agency of the facility would be the Reserve Bank of Malawi (RBM) which, will develop required administrative services and establish an Export Credit Guarantee Fund (ECGF) to meet claims and to be credited with guarantee fee payments by participating banks. The facility will maintain separate accounts from those of the RBM which would be annually audited. A separate accounting system will support the reputation of RBM's role as a specific guarantee organisation. Periodic management reports will be prepared on the operations of the facility.

Participating banks are expected to have an important role in the institutional set-up of the facility. They would not only extend financing to be guaranteed but also maintain suitable records on export credit and guarantee transactions for monitoring purposes and promote exporters to use the facility. To strengthen the collaboration, RBM and participating banks will establish an informal Consultative Group for the support of the operative staff to:

- discuss on-going export credit and guarantee activities
- provide guidance and recommendations to improve the performance of the facility.

The preliminary plan is that the facility be located in the export section of the Exchange Control Department of the RBM. Currently the section employs five professional staff dealing with export payments. Their know-how would support the new activities although it is not directly of the kind required to run the facility. The immediate professional staffing needs of the facility include two senior officers one for supervision of activities and administration of the ECGF and the other for operations to process guarantee claim applications. Their organisational and reporting positions should be designed to attract skilled and motivated individuals to run the facility.

The policies

Risk covered: The RBM credit guarantees will cover the risk of non-payment of exporters to the participating banks. The principal repayment source for a bank

credit will be the export bill but it is the exporter's responsibility to repay the credit notwithstanding the foreign buyer's payment.

Pre-shipment credit guarantee: The pre-shipment credit guarantee is designed to provide collateral for bank credit of up to a maximum of 180 days, that is, granted in an amount of up to the domestic production/processing costs. The validity of the guarantee will always be in accordance with the production period, that is, from the purchase of inputs until the date of shipment and equal to the duration of the credit. Because the domestic costs may include refundable duties at shipment, 'it is possible that pre-shipment credit guarantee needs to be higher than the export price of the product.

Post-Shipment credit guarantee: The post-shipment credit guarantee is designed to provide collateral to a bank credit that is granted to refinance the supplier credit extended by the exporter to his foreign buyer. The maximum amount of credit to be guaranteed is the same as the supplier credit and the maximum guarantee period 180 days.

Packing/individual credit guarantee: Under the above categories of pre- and post-shipment credit guarantees, a guarantee limit is usually granted within which individual export transactions of the exporter are then financed and guaranteed (packing credit guarantee). A guarantee may also be provided without a pre-established limit against a specific export order to cover pre- and post-shipment advances to the exporter who occasionally sells abroad (Individual credit guarantee).

It is expected that a guarantee for pre-shipment finance will be more often used than post-shipment guarantees because the exporter is usually paid under a Letter of Credit. When this is the case the exporter will not need either post-shipment finance or guarantee coverage.

Eligibility

The primary objective of the facility is to increase production for export. Therefore, the facility will be available to all types of Malawi exporters of non-traditional products including not only industrial and agricultural producers but also export merchants and traders. However, to be eligible for the guarantee of the facility manufacturers have to show that their export products contain at least 30% local value added. Similarly, export traders have to prove that their products are locally manufactured with a value added as mentioned above.

Although the facility is designed to complement rather than substitute normal collateral, exports will not be classified in this regard in order to widen the risk of spreading of the guarantee portfolio so as to strengthen the self-sustaining nature of the facility.

Guarantee fee

Depending on the risk assessment, the guarantee fee may vary between 1 - 1.5% per annum for pre-shipment stage and 0.75 -1.24% for post-shipment. The fee is charged on the highest amount outstanding at any time during the month. In addition to risk assessment the size of the guarantee fee is also dependent on the operating cost of the facility.

Resource and assessment

RBM will not require any counter-guarantee or collateral from the exporters. However, foreign receivables will be usually transferred to the benefit of the bank or RBM. RBM reserves the right of recourse to the exporter to the extent that claims have been paid to a bank due to the default of the exporter. The aim of a recourse to the exporter is to discourage a solvent exporter escaping his repayment obligations

to the bank just because the bank has secured a guarantee cover for the credit. It is expected that the bank would be inclined to seek guarantees to cover clients who, in their judgement, are potentially risky. It is therefore important that sufficient expertise be developed in RBM for its own risk assessment on exporters and their foreign transactions to minimise guarantee losses.

Export Credit Guarantee Fund

The facility includes an export credit guarantee fund (ECGF) that is needed as a resource base to meet claims if and when they arise. The creation of the ECGF will also provide assurance that the RBM/Treasury is prepared to pay those claims. In addition to claims, the capital income of ECGF may be used for covering the operating cost in initial stages of exporter's development.

ECGF is composed of the capital itself, guarantee fee income and interest received on investments of ECGF. It is not expected that the fund would be immediately required for claims, because guarantee liabilities will accumulate slowly. As for determining its size, the statistical base is vague because commercial banks do not separate advances to foreign and domestic production of their clients. However, based on the annual non-traditional exports volume (roughly K100 million) and assumptions on turnover and utilisation of bank advances it is estimated that K4 million will be sufficient. It would provide a cover for a guarantee portfolio of K40 million applying a risk ratio of 10 percent.

Pre- and Post-Shipment Support Facility

a) Pre-shipment credit scheme

Objectives

The objective of this facility is to support, through provision of finance:

- exporters who import certain inputs in order to complete manufacture of their exports
- exporters who require working capital in order not to disrupt the production process while awaiting export proceeds that are due on credit terms.

Because of the export nature of this finance it must be provided on terms more favourable than borrowings that are purely for domestic consumption. Therefore, all traders and exporters engaged in export business of any form should be eligible for assistance, particularly the non-traditional exporters.

b) Post-shipment credit

Objectives

The objective of this scheme is to support, through provision of finance, the needs of the exporter during the period between shipment of goods and receipt of payment from abroad. The need for post-shipment credit will vary according to the method of payment and nature of goods.

c) Eligibility

Exporters/traders may be eligible for assistance in respect of the following:

- all types of advances
- packing credits
- pre-shipment loans

- post-shipment loans through discounting bills or letters of credit,

for the purpose of purchasing raw materials, manufacture, processing, packaging etc. of firm export orders.

Donor agencies and foreign investors: Financial institutions like the World Bank, bilateral and multilateral aid and direct foreign investment can all be useful sources of funds. Projects executed by the Food and Agriculture Organization (FAO) and other donor agencies can provide "seed" capital or complete capital for agricultural projects which may yield goods and services for international marketing. Whilst "capital" in this situation primarily refers to monetary elements, technology, training and management skills are also important forms of "capital". Credit from foreign distributors or direct foreign investment, or contributions from donor agencies in production and/or marketing facilities can all play a role in the "initial" take off of agricultural commodities.

Similarly, in a non-marketing sense, many agricultural products rely upon imported technologies in the form of seeds, breeding stocks, planting materials, processing plant and so on. Subsequently these inputs may be produced locally though licensing or direct foreign supplier investment. In the case of Israeli citrus and Brazilian frozen concentrated orange juice, bilateral or multilateral development did contribute to the development of production, marketing and/or transport infrastructure (irrigation, port facilities, etc.). Table 9.2 shows the amount of foreign capital and technology in selected commodity systems as an example.

Table 9.2 The amount of foreign capital and technology in commodity system development.

Commodity	Production input supplies	Finance of production	Finance for processing	Other capital or technology transfer
Kenya vegetables	Seeds	Minor direct investments	Minor	Private training
Zimbabwe horticulture	Root stock seeds	Major and minor direct investments	Major in sectors	Management training/extension
Israel fresh fruit	Seedlings	Some direct investments		Donor for irrigation and orchard rehabilitation
Thailand tuna	Processing equipment	Fishing by foreign vessels	Direct investment	Management training
Argentina beef	Breeding stock	Direct investment	Direct investment	

Banks:

Banks provide a number of facilities for potential separators and current exporters.

i) Overdrafts and loans

The security for these is the documents of title to the goods, and evidence that goods have been consigned to, or to the order of, a bank overseas. Until confidence is established, in the event of a default by an importer, banks will look at the exporter.

ii) Negotiations of outward collections

Financing by a bank of export documents is normally on the understanding that the transaction is with recourse to the exporter, in the event of a default. Banks tend to ask for irrevocable authorisation enabling them to dispose of the goods and retain the sale proceeds. Documentary bills for negotiation by banks which have a

subsidiary or branch in the drawer's country may be claimed "exchange as per endorsement". The negotiating bank pays the face amount of the bill to the drawer, calculates the equivalent foreign currency amount due on maturity from the drawee, and endorses these details on, say, the Bank of England. So the drawee receives and the drawee pays in their respective currencies.

iii) Documentary letters of credit

In some cases there may be provision for pre-shipment finance. By having a "red clause" inserted in a credit a beneficiary is able to receive advance payments. When issuance drafts are called for, the normal practice is for the credit to contain terms to the effect that the drafts are to be negotiated to obtain payment as if the issuance drafts were at sight.

Acceptance and discount facilities are also available.

Government: As well as credit issuance schemes, such as those described in iii), government may also operate an export reimbursing fund or retention scheme. For example, if an industry earns foreign currency through exports, a proportion of the earnings may be available for importation of goods and services.

Factoring: Often done by specialist agencies. These assist in debt collection and may also purchase accounts receivable. Particularly for open account they provide finance of a short term nature.

Forfeiting: This is normally for items of a capital nature or for commodities whose promissory notes or bills of exchange are availed of. The forfeiting organisation will purchase the guaranteed debts, assuming complete responsibility, including country risk. Rates of interest are on a fixed basis, offering the exporter clearly defined funds.

Confirming houses (and export houses): Confirm to the exporter that payment will be made, and to the importer that delivery will be effected in accordance with the underlying contract. Therefore, they eliminate much of the risk element inherent in open account trading.

Leasing and hire purchase: Leasing or purchasing on hire often releases the burden of full payment in advance. It also gives the option or facility to buy later and/or to make sure the item is maintained at no cost. This could be important where spare parts may be of concern.

International financial markets: Borrowing money outside national boundaries offers a number of advantages:

- interest rates in a specific currency may be lower in some financial markets than in others
- in country rates are too high or sums insufficiently large enough
- exchange control barriers may exist in country.

Sources of international money (excluding donor funding)

Foreign currency finance: Professional exporters understand how to use foreign currencies in their costings and negotiations. Foreign currency may be borrowed, or insurance taken out by covering forward. Exporters are not in the business of currency speculation per se.

Eurocurrency finance: Eurocurrencies are funds of major world currencies owned outside the relevant national boundaries. They can be borrowed in sizable amounts. Interest rates are often lower than the borrowing rate for the same domestic currency.

Currency swaps: Negotiations of outward collections and documentary letters of credit may be open to some but not all firms as they may not have an international credit rating. Currency swaps are a way to gain access to foreign capital at favourable rates. Swaps involve the exchange of debt from one currency to another. The process is as follows:

"Swaps comprise contracts to exchange cash flows relating to the debt obligations of the two counterparties to the agreement. Although swaps are contracts between the two parties they do not alter the direct responsibilities that each party has for the debt obligation it has personally incurred.

"Let us suppose a well respected Zimbabwe company wants to borrow Botswana pula but it is not well known in Botswana. If there is a company in Botswana wishing to borrow Zim dollars but is unknown in Zimbabwe, there is the possibility of a swap. If the Zimbabwe company borrowed in Botswana pula it would have to pay a relatively high interest rate reflecting its poor credit rating. Similarly the Botswana company would have to pay a relatively high interest rate on its borrowing in Zimbabwe. From an interest rate point of view it is better that the Botswana company borrows in Botswana pula and the Zimbabwe company borrows in Zim dollars. The two companies then swap currencies and the payments related thereto. The Zimbabwe company pays the interest and eventually repays the Botswana loan and vice versa.

"The simplest method of servicing the loans would be for the Zimbabwe company to pay the interest on the Botswana pula loan and for the Botswana company to pay the interest on the Zimbabwean dollar loan. In fact each counter party is paying interest on the other's loan as if it were the borrower. They are both in fact paying lower interest charges than if they themselves had borrowed the currencies they needed.

"The Botswana company has borrowed pula and the Zimbabwe company Zim dollars. They swap the currencies, the simplest basis being to do so at the spot price at the time of making the deal. When it comes to repayment, again the easiest method is for the currency to change hands at the spot rate. The Botswana company has to repay in Botswana pula; the Zimbabwe company makes the appropriate amount of Bots pula available to the Botswana company by selling Zimbabwe dollars at the spot rate.

"As can be seen.... a currency swap can be construed as a series of forward exchange contracts... The term (life) of currency swaps can vary. The swap document should clarify the rates of exchange that will be used. Normally one currency is recorded as the fixed principle amount, with an agreed rate of exchange for calculating the amounts in the second currency.

"One of the objectives of the currency swap is to take advantage of lower interest rates, another... is to restructure the currency base of a company's liabilities. If a UK based multinational found that nearly all its borrowings were in sterling, it would become worried if (sterling) was getting stronger against the currencies in which it was generating its earning. It might therefore attempt to swap some of its sterling debts into debts in other currencies. It would be attempting to reduce its risks due to exchange rate exposure. In restructuring the debts to balance its exchange rate exposure, the company could also take the opportunity to alter the structure of its interest rate liabilities. If many of its loans were at fixed interest rates and it was believed that interest rates would fall in

the future, it could at the same time as swapping currencies move from fixed rate obligations to floating rate commitments."¹

The problem is that, although the swap is covered by contract, each party remains responsible for the original loan (principle) it has incurred in its own currency. It is better, therefore, to get an idea what the balance on exchange might be at the outset and certainly to understand the counterpart.

Currency transactions

In every currency transaction there are risks which are the effects of currency exchange rate fluctuations on the realised value of such transfers. Shifts of rates up or down could lead to a bonus or a loss between sellers and buyers. The purpose of this section is to explore how the exposure to transaction risks affects prices and can be accounted for.

Risks can be tackled at two levels - policy and individual level.

Policy level

Risks can be reduced by raising in-country finance, by use of internal sources and by anticipating currency moves, hence allowing the organisation to devise a pricing policy which will balance out wins and losses. By holding price for a longer period and by balancing out the value of products marketed in foreign countries with imports or other cash obligations, net exposure is reduced. However, it is difficult to achieve in practice.

Individual transaction level

In currency movements there are risks to buyer and seller. As a supplier there are advantages in operating in your own currency, because the customer bears the risk. As a buyer, purchasing in exporter's currency you can accept the transaction risk by waiting to buy the necessary foreign currency at the time of settlement or alternatively you can try to reduce the risk by entering a forward exchange deal (known as "money market" cover). These are explained further below.

Pricing and the use of foreign currencies

An organisation which is prepared to quote prices and invoice in the buyer's currency can obtain many advantages. In the first place it has a marketing attraction because it simplifies the whole transaction for the buyer, telling him immediately what the cost is to him, and it demonstrates the exporter's efficiency. Secondly, because most sales are made on credit terms, there is a possible extra profit available by selling the expected currency receipts on the forward exchange market.

No operation in foreign currency need present any problems as the banks are fully equipped to provide all the information and facilities required. The London foreign exchange market is the most efficient and comprehensive in the world. Any foreign currency received in payment of exports can be readily sold through the exporter's bank.

Forward market: Where credit terms have been given and goods have been sold at a price expressed in foreign currency, the risk of changes in the exchange rate can be covered by selling the expected currency forward. All that is necessary is for the exporter to inform his bank that he expects to receive a certain sum in a foreign currency on such a date and establish with the bank a "forward" contract. The bank will quote NOW a rate at which it will buy the currency on that date. The exporter thus knows exactly how much of his own currency he will receive when the payment is made.

The forward rates are quoted in the press daily for the principal currencies, usually for one, two, three and six months. For some of the major currencies it is possible to get quotations for up to two or three years and in the case of the US dollar a period of up to eight years has been arranged. The quotations are shown at a premium or discount to the spot rate.

Where the exporter cannot be certain as to the exact date when he will receive payment an "option forward" contract can be arranged. The "option" is not whether to proceed or not but merely as to the date of delivery of the currency. Say, for example, an exporter has sold on 90 day terms but expects a little slippage, he can sell the currency forward for three months fixed option one further month. He may then deliver the currency any time from the end of three months up to the end of the fourth month.

Exchange risk: London is by far the biggest money market in the world (480 authorised banks compared with 200 in the US and 100 in Frankfurt/Zurich).

An exporter may see that a profitable deal at today's exchange rates would become unprofitable if there were a serious shift in the exchange rate before payment was received. Exporters are not in the business of exchange gambling, they have enough work making profits on exports anyway without running any additional risk by speculating in exchange.

So how can the exporter eliminate the exchange risk?

i) Invoice in domestic currency. This is the easy way out. Unfortunately all the exporter is doing is to transfer the exchange problem onto his customer. There may be occasions when it is better to invoice in sterling, however, and we need to be professional enough to identify these occasions.

ii) Invoice in foreign currency having fixed the rate in advance with the bank. There is a free market in forward currency contracts. The exporter's bank will quote a price for the date when the export receipts are expected, and if the deal is worth £20,000 or more, the cost to the exporter for the quote is likely to be nothing. The bank makes its profit on the differential between its buying and selling prices.

If a foreign currency is at a premium on the forward market, the forward contract with the bank will guarantee the exporter more sterling than at today's exchange rate. So if the exporter gets a quote from the bank, he knows how much extra sterling he is due to get when the foreign currency arrives and he can use this information to his advantage during the negotiation. So professional exporters are advised to keep their eyes on the forward market.

iii) Invoice in foreign currency, fixing exchange rate on the invoice. Here, obviously the exporter has to take a view on what will happen to the exchange rate. At least if he uses the forward rate being quoted by the bank he may be no worse off than if he had contracted forward with the bank. However the customer may well not like this method.

iv) Borrow foreign currency from a bank, sell in dollars, and repay the loan with the proceeds of the sale. The cost of this may be less than it would cost the exporter to sell forward a currency which is going to a discount.

v) Offset imports in one currency with exports in the same currency so avoiding the need to change currencies and risk exchange loss.

Examples of forward rate calculations can be seen in the following case.

Arbitrage: Investments in forward currency are usually financed by borrowing. This means that the decision to buy forward or to hold foreign currency on deposit will face the organisation with additional cost in terms of interest charges. It would seek to reduce the risk and reduce the cost of borrowing. This can be done by involving three currencies, say:

BC = Buyer's currency

SC = Seller's currency

MC = Mediating currency (it is believed it will strengthen against SC in the period)

If buying for settlement in the exporter's currency in three months' time

i) Borrow on BC

ii) Convert at spot rate into MC if you expect MC to strengthen against SC

iii) Invest MC to earn interest

iv) On the appropriate date, cash the MC investment (original sum + interest)

v) Convert this into SC - pay the vendor

vi) Apply the residual to meet borrowing and transaction charges (this may necessitate converting the residual from SC into BC).

The dangers in this are the move into three currencies and the investment of MC. Currencies and investments may rise and fall.

Case 9.1 Forward Rate Calculation

A British exporter has sold to Germany, on 26 August, goods on 90 day terms and asks his bank to arrange forward cover. The rate quoted by the bank will be calculated as follows:

On 26 August the bank's spot rate for deutschmark is 4.0025 - 4.0125. 1 month forward is 1.75 - 1.25 pf. Premium 3 months forward is 4.50 - 4 pf. Premium

The exporter will be selling DM to the bank, therefore the bank will apply its buying rate based on spot 4.0125.

The payment is expected in three months time so the bank will calculate on the basis of the three months forward; rate. 4.50 - 4 pf. Premium. The forward rate is at a premium, i.e. dearer in the future, so the rate will be lower and the premium deducted from the spot rate. However, the bank is buying, so it will wish to keep the rate as high as possible and will, therefore, deduct the smaller premium, i.e. 4 pf. The forward rate; quoted would therefore be 4.0125 less 4 pf = 3.9725.

If, on the other hand, the exporter is expecting payment some time during September/October and wishes to cover forward he will cover one month fixed, option one further month. The one month fixed takes him to 26 September and he can receive the benefit of the one month premium but, as payment may be received any time between 26 September and 25 October, he cannot receive the benefit of any extra premium for the 1 second month and so the rate will be 4.0125 less 0.125 pf. = 4.00.

The exporter has also sold goods to Spain on 90 day terms and wishes to cover forward on 26 August.

The bank rates on this date are 226.30-226.50, 1 month forward 3.18-4.25 c. disc, 3 months forward 11.25-13.65 c. disc.

Again, the bank will base the calculation on the spot buying rate of 226.50 and the 3 months forward rate of 11.25-13.65 c. disc.

In this case, however, the forward rate is a discount, i.e. cheaper forward, and therefore the rate will be high and the discount added to the spot. The bank, wishing to keep a buying rate as high as possible, will add the larger discount, i.e. 13.65 c. The forward rate would, therefore be 226.50 plus 13.65 = 240.15.1

If the exporter is expecting payment during September/October he can still only obtain a fixed forward rate for one month, i.e. to 26 September with an option for a further two months.

As payment may be received any time from 26 September to 25 October, i.e. three months, and as the forward rates are at a discount, the bank will take the maximum discount and apply the three month rate.

Currency baskets

Organisations which have to trade in several currencies may seek to reduce transaction risk by adopting a portfolio or currency basket approach. There are two ways a) holding a basket of currencies or b) using a currency basket. For example, the UAPTA and the European ECU is a weighted average of member currencies and so fluctuates less than, say, between two currencies. Basket currencies sometimes reduce the accounting complexities faced when doing business in different currencies.

Option

Options, hedging and futures market

Whilst options have, to some extent, been covered in the above sections, appendix I goes into much more detail. The options and futures market is extremely complicated. The option writer is the one who bears the main risk in the event of negative exchange. The client is taking out a form of insurance and the commission charged by the option writer (which can be subtracted) is the premium to cover this. Details of the option and future markets are given in the appendix. It should be noted that few African countries are involved in options, hedging and future costs.

Spot marketing trading

Many market exchanges are done "on the spot". In such transactions, goods, services or money are transferred simultaneously between buyer and seller. Trade takes place on goods which have already been produced and the going price acts as the source of contracts, incentives and other relevant information. Spot market transactions can occur across several types of markets, including auctions, private treaty, etc. Auctions act as a "price discovery" mechanism. They are very useful for standard products - flowers, beef and so on and can give a flexibility to the price mechanism where they may be updated on a regular basis. Auctions also have very low transaction costs.

Spot market trading has many advantages:

- i) It puts constraints on the individual - budgetary and purchasing.
- ii) Prices can be adjusted to market conditions almost on the spot, thus giving great flexibility.
- iii) The market price system gives incentives - the price automatically adjusts to productive effort or non-production. If the spot price is high and attractive, new producers may enter the market and be rewarded. If there are supply differences then the price adjusts upwards also. Of

course, the converse happens with gluts.

iv) It gives information to economies with market prices "summarising" all, or most, of the information on transactions required to conduct trade.

Spot market trading is not just an agricultural commodity phenomenon, but can also be seen in industrials like oil and metals.

Concluding comments

Pricing in international marketing is an extremely complex affair due to the political and economic risks involved. Yet astute handling of the elements of price can give the organisation an advantage in terms of currency gains, but this should not be the reason why organisations should get into foreign transactions.

Many agricultural organisations, especially based in developing countries, are mainly price takers. However, when the added value process begins to gain momentum, then all the elements of international pricing need to be considered. In all cases it is often good policy to get help from international bodies like banks and finance houses.

Chapter Summary

The price of a good or service is the value society places on it to obtain it. Pricing decisions on the marketing mix are compounded when marketing across international boundaries.

Prices are fixed, usually on the basis of cost, competitive or market considerations and may be pitched high or low, depending on supply/demand and intangible (image) factors. The process of price fixing is compounded by exchange rate considerations, currency fluctuations, inflation, devaluation or revaluation, transfer and price escalation considerations. Pre-financing in export is often essential as sellers have often to bear the costs involved before obtaining the revenue from the sale. Sources vary, including internal and external sources. In order to make sure that the export system is supported and encouraged, many countries have an export credit guarantee system which helps reduce the financial risks involved. Other methods of obtaining revenue in a risk situation are by operating in the futures and options market. However, these are not as prevalent in less developed countries as in more developed ones.

Key Terms

Currency swaps	Hedging	Price floor
Devaluation	Inflation	Purchasing power parity
Exchange rate	Market holding price	Revaluation
Export credit guarantee fund	Option	Skimming price
Foreign exchange	Penetration price	Spot marketing
Forward rates	Price ceiling	Transfer pricing
Future	Price escalation	

Review Questions

1. Explain what is meant by "foreign exchange".
2. What are the main methods of export pricing? What are the dangers in attempting to set prices globally?
3. Describe the principle sources of funds available to an exporter.

4. What is the difference between an "option" and a "future"?

Review Question Answers

1. Foreign exchange

b) External sources

Foreign exchange is currency bought or sold in the foreign exchange market. It is very dynamic. The price of one currency in any other currency is the result of forces of supply and demand in the foreign exchange market. If a country sells more than it buys, its currency value will rise and vice versa.

- Host country borrowing
- Export credit schemes and pre and post shipment support
- Banks - overdrafts and loans
- Government

2. Methods of export pricing.

a) Cost plus - the historical accounting cost method and the estimated future cost method

- Factoring
- Forfeiting
- Confirming house

b) Competitive pricing - Pricing based on manufacturing and marketing costs but cognisant of demand and supply conditions.

- Leasing and hire purchase
- International finance house

c) Market pricing - pricing at "what the market can bear"

- Students can give details of each source.
- Dangers in price setting - price escalation

4. Option

An option is a bilateral contract giving its holder the right, but not the obligation to buy (sell) a specified asset, at a specified price at or up to a specific date.

- Devaluation and revaluation
- Inflation
- Dumping

Future

A legally binding contract to deliver/take delivery on a specific date of a given quality and quantity of a commodity at an agreed price. Difference lies in the degree of commitment to delivery and title.

3. Sources of funds

a) Internal sources

- Transfers within group
- Subsidiary

Exercise 9.1 Exchange rates

The following table provides spot exchange rates on three currencies. Use this information to answer the questions set out below:

The US dollar spot 10 July

DM 2.4650 - 2.4660

FF 7.3925 - 7.3975

Yen 237.80 - 237.90

- a) What is the rate at which a bank will buy DM for dollars?
- b) What is the rate at which a bank will sell yen for dollars?
- c) If you wish to sell FF 1,000,000 for US dollars on 10 July, how many dollars would you get from the bank?
- d) If you wish to sell US\$ 1,000,000 for DM on 10 July how many DM would you get from the bank?
- e) What are the spreads on the DM, FF, and yen rates?
- f) If you sell DM spot for US dollars on 10 July, when will you get value for your dollars?

Exercise 9.2 Forward trading

- a) Let us assume that the date is 6 June. If MPL, whose domestic currency is pounds sterling, has to pay its Swedish suppliers of paper Swedish Krone 500,000 in two months' time on 6 August, does MPL have a currency exposure problem?
- b) MPL has purchased a German printing machine, and has to pay for it in DM in three months' time. Would the Finance Director of MPL have to buy or sell DM three months forward in order to eliminate any currency exposure?
- c) Assume you have entered into a forward contract with a bank to sell \$1,000,000 forward for sterling at a rate of \$1.6540 for value on 6 August. If by the 6 August, the spot rate for dollars/sterling is \$1.7560, will you have benefitted or not from using the forward contract?
- d) If a bank's spot (buying) rate for dollars against sterling is \$1.5650, and the three month forward rate on the US dollar is at a premium of 3.50 cents (\$0.0350) against the pound, what is the actual three month forward rate?
- e) If a bank's spot (buying) rate for DM against the dollar is DM 2.5240, and the three month forward rate on DM is at a discount of DM 0.0550 against the dollar, what is the three month forward rate?

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Chapter 10: Distribution Decisions

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Distribution has two elements, the institutional and the physical. Whilst the modes of market entry were fully discussed in chapter seven, the actual institutions (for example retailers, agents and so on.) were not. These will be discussed briefly. Physical distribution aspects cover transport and warehousing, and again, these will be briefly touched on.

Whilst most agricultural exports from developing countries are either in a "primary" format (for example cotton, maize) or "finished" format (for example flowers, vegetables) increasing attention is being put on "processed" or "added value" formats. This means that, whereas in the former, exporters are in the hands of agents, merchants or other middlemen, in the latter much more needs to be understood of the channel itself. The more is known about the end user and the channel to reach him/her the better equipped will be the exporter to understand and meet the needs and also to perhaps gain more of the exported added value. It is a fact in flowers, for example, that these are sold on from the Dutch market to the Far East, where the price commanded is much more than the original exporter price. If the original exporter could participate in this channel, the greater would be the return.

The longer the channel, the more likely that producer profits will be indirectly reduced. This is because the end product's price may be too expensive to sell in volume, sufficient for the producer to cover costs. Yet cutting channel length may be impossible, as country infrastructure requirements may dictate they being there.

Chapter Objectives

The objectives of this chapter are:

- To give an understanding of the institutional and physical aspects of channels of distribution in global marketing

- To describe the different channels of distribution and show their advantages and disadvantages and,
- To illustrate the importance and role of channels of distribution by reference to two case studies on cotton and horticultural produce.

The Structure Of The Chapter

The chapter starts by showing the importance of the institutional and physical channel of distribution in global marketing. It then discusses the different forms of channel, their advantages and disadvantages. Particular attention is paid to the channel forms of relevance to global agricultural food marketing including brokers, contractors, and personalised trading networks. The chapter ends by concentrating on two case studies - cotton and horticulture; two industries where channel management needs to be particularly well organised.

Channels

A channel is an institution through which goods and services are marketed. Channels give place and time utilities to consumers. In order to provide these and other services, channels charge a margin. The longer the channel the more margins are added.

Channels are an integrative part of the marketer's activities and as such are very important. They also give a very vital information flow to the exporter. As seen in chapter seven, the degree of control one has over a channel depends on the channel type which is employed. Whilst for developing countries, as stated earlier, channels are almost given, this is not always the case, and as exporting becomes more and more necessary, it will not always be the case. In deciding on channel design the following have to be considered carefully:

- Market needs and preferences
- The cost of channel service provision
- Incentives for channel members and methods of payment
- The size of the end market to be served
- Product characteristics required, complexity of product, price, perishability, packaging
- Middlemen characteristics - whether they will push products or be passive
- Market and channel concentration and organisation
- Appropriate contractual agreements
- Degree of control.

Figure 10.1 Consumer channel alternatives

Channel structure

Channel structure varies considerably according to whether the product is consumer or business to business oriented. The former tends to have a variety of formats, whereas the latter is less complicated. Figures 10.1 and 10.2 give a stylised channel alternative structure. The choice of which one is used depends on the requirements listed above.

Figure 10.2 Business channel alternatives

In many countries there is a move to vertical or horizontal integration within channels, especially in developed countries where large chains dominate, as in the UK food retail trade. The converse is the scenario in many less developed countries. In East Africa, for example, small dukas (carrying less than 100 items and occupying

no more than 506.75 square feet of space) operate widely on a margin of 12% as opposed to the developed countries' average of 24% margin. Also there can be very thriving parallel market systems, often difficult to track down. Decisions on what channels and entry strategy to adopt depend heavily on the risks, availability and costs of channels.

Most developing countries rely heavily on agents in distributing their products. Whilst criticism of being "ripped off" is often made, the loss caused by the shrinkage is less than that associated with more sophisticated channel forms.

We can now look in detail, at some important types of channel members relevant to agricultural marketing.

Brokers

Brokers do not take title to the goods traded but link suppliers and customers. They are commonly found in international markets and especially agricultural markets. Brokers have many advantages, not least of which is they can be less costly overall for suppliers and customers.

- They are better informed by buyers and or sellers.
- They are skilled socially to bargain and forge links between buyers and sellers.
- They bring the "personal touch" to parties who may not communicate with each other.
- They bring economies of scale by accumulating small suppliers and selling to many other parties.
- They stabilise market conditions for a supplier or buyer faced with many outlets and supply sources.

Personalised trading networks

Frequently, relationships may be built up between a buyer and a seller, in which over time as confidence grows, unwritten and informal understandings develop. These relationships reduce information, bargaining, monitoring and enforcement costs. Often, as relationships build, then trust develops which may become proxy for laws. Flexibility ensues which often means priorities or "favours" can be expedited. Trust and reciprocity can enable trade to develop in unstable economic circumstances, but both parties are aware the relationship can be undermined through opportunistic behaviour. The Kenyan fresh vegetable industry is a classic example of personalised trading networks enabling international trade between Kenya suppliers and their familial (often Asian) buyers in the United Kingdom.

Associations, voluntary chains, cooperatives

Associations, voluntary chains and cooperatives can be made up of producers, wholesalers, retailers, exporters and processors who agree to act collectively to further their individual or joint interests. Members may have implicit or exclusive contracts, membership terms and standard operating procedures.

These forms of coordination have a number of advantages:

- They counter the "lumpy investment" phenomenon by spreading the cost of investment among members.
- They can reduce or pool members' risks by bulk buying, providing insurance and credits, pooling market prices and risk.
- They lower transaction costs of members through arbitration of disputes, provision of market information systems, been a first stop for

output.

- They can reduce marketing costs through the provision of promotion, protection of qualities and monitoring members' standards.
- They can act as a countervailing power between buyers and producers. This is very important where supermarkets in the UK, for example, are now buying in such quantities that they are dictating terms to suppliers.

Developing countries do not have a history of good cooperative development, primarily because of poor management, financial ineptitude and over-reaching themselves. However, the Bombay Milk Scheme in India is working very well. The latter has been very successful in going into value added processing as well.

Contracting

Contracting represents an intermediate institutional arrangement between spot market trading and vertical integration. Marketing and production contracts allow a degree of continuity over a season, cycle or other period of time, without the "instantaneous" of spot trading.

The two main types of contract are:

- Forward Markets.** These involve commitments by buyers and sellers to sell and purchase a particular commodity over a stated period of time. Specifications usually include weight, volumes, standards and values. Prices may be based on cost plus or negotiated. These contracts exist between farmers and first handlers and exporters and importers.
- Forward resource/management contracts.** These arrangements combine forward market sale and purchase commitments with stipulations regarding the transfer and use of specific resources and/or managerial functions. In such a contract the exchange of raw material or commodity is made on condition that it involves the use of certain inputs or methods, advised by the buyer, who may even take over the distribution function. This is a typical Marks and Spencer arrangement. Marks and Spencer is a very successful, high quality and price retail operation in the UK. Such arrangements are found in many franchising, distributor or marketing/management agreements and help to internalise many future product transactions.

Both these forms of contract reduce the risks on both the buyers' and the sellers' side. By creating forward markets, the seller reduces market risk, and the buyer ensures that he receives commodities to certain specifications. Forward/resource management contracts also have the advantage of the provision of credit, market information and, perhaps, other "trade" secrets. Production contracts to farmers are also a source of credit collateral.

Integration

Integration vertically involves the combination of two or more separate marketing or production components under common ownership or management. It can involve investments "forward" or "backward" in existing activities or investments in interlinked activities. Integration horizontally means the linking of marketing or production separables at the same level in the system, for example, a group of retailers. Integration can bring a number of economies to food marketing systems, viz:

- **Production/logistical economies:** integration can bring economies of bulk, transport, and inventories.

- **Transaction cost economies:** integration brings cost economies because the firm may become the sole supplier of goods and services to itself; these include bargaining costs, information system streamlining and centralised decision making.
- **Risk bearing advantages:** vertical integration can overcome risk and uncertainty, i.e. by internalising flows the organisation can eliminate the risk of variability in supplies, outlets, qualities and so on. More direct control over assets may enable the firm to invest in processing and marketing facilities which further enable the development of economies of scale. Typical examples include nuclear estates and outgrower schemes.
- **Market imperfections:** these can be "absorbed" often by vertically integrated organisations. Taxes, prices and exchange controls and other regulations may be "absorbed" to give pecuniary gain. Also, integration enables the firm to increase its market share and leverage with suppliers and customers.

In agriculture, Lonrho and Anglo American provide excellent examples of vertically integrated organisations. Lonrho, with its estates in Kenya, is also in processing. Anglo American is also in agriculture and provides an interesting case of vertical integration giving advantages. If one takes the Anglo American operation in Zimbabwe, it owns, amongst other things, citrus estates. It not only grows, but processes and markets domestically and internationally. In addition, Anglo owns training facilities, transport facilities and gives credit and investment capabilities. Its international operation means it knows the Government tax, regulations, exchange controls and other measures very well, and so can "negotiate" around or within this legal/monetary framework.

Government

It has already been seen in chapter seven that Government can take a leading role in the distribution of goods and services via state-owned Marketing Boards. Government may provide an infrastructure which the private sector just cannot afford for example roads, utilities, training and extension. Government has the sovereign authority to provide the regulatory framework within which commodity or agricultural export systems can be developed. It can also define the rules for international trade and market entry. It can negotiate in either a bilateral or multilateral form, to facilitate a particular commodity transfer or arrange lower terms of access.

Government also has other roles to play like cooperating or providing services in defined markets. It can provide credit or market information. It may stabilise prices with price controls like floor or ceiling prices, buffer stocks, quantity controls and so on. Government can regulate the competitive position of markets by passing regulations which protect or promote a market structure. It may force suppliers into Marketing Boards as the only outlet and so alter the whole competitive structure of industry. Both Marketing Boards and Marketing Orders can be used to control physical commodity flows, enforce market quality standards and pool market risk. Finally Government can "enable" suppliers through the introduction of export incentives, reduced taxes or export retention schemes.

As an example of international channels decisions and management the following cotton example is given, adapted from the ITC training manual (1989)¹.

Cotton marketing

Customer requirements

In marketing cotton the basic question is, who is the customer? For cotton it may be an international merchant (large or small) or a local/regional merchant (large or small) or a spinning mill in the end user country. The customer has a number of clearly defined needs including the following:

- Availability - on time and in steady supply
- Quality - reliable, even running, free from foreign matter, no country damage and will pass the micro, PSI and GPT test values
- Shipment - on time, in a container, clearly marked and direct to customer
- Price - competitive at a given time. Its relative value must be competitive versus synthetics quality and against the Liverpool index.
- Terms - these must be simple - FOB, CFR etc. and be in tune with arrival/delivery schedules. Deferred terms and payment in home currency are advantageous
- Arbitration - a system for rejection, substitution and penalties must be agreed
- Information - advice on price developments, time to buy, who else buys and ranges of prices.

In addition, the producer and merchant have needs and objectives:

Producer:

- Maximum inflow - for goods and services (freight insurance)
- Maintain presence in key markets
- Image - quality, contract performance and administrative excellence

Merchant:

- Margin level
- Market share/key customers - either big, international or niche
- Image - cheapest, most aggressive, quality and customer service.

Channel structure

Figure 10.3 below gives a typical channel structure for cotton¹. At each stage value is added. The typical value chain is seed merchants, farmers, country buyers/cooperatives, ginner, buyer, merchant, selling agent and end user.

Figure 10.3 Cotton distribution

Channel alternatives

As can be seen from the above figure there are a possible number of alternatives for distributing cotton. Basically the choice comes down to two alternatives, the producer/seller selling direct or through an international merchant or agent.

International merchant/agent: A good merchant is characterised by the following characteristics, in comparison to the producer/seller selling direct:

- Well informed
- Well disciplined
- Knows the detail of his business

- Thinks in terms of probabilities and absolute terms (risk/reward)
- Is concerned but not dogmatic - he can accept when he is wrong
- Reports to few and knowledgeable people

An international merchant acts as a bridge between producers and consumers. He performs the following functions:

- Language - conducts communications in suppliers' and consumers' preferred language
- Space utility - he prepares the logistics function including sea and/or land transportation arrangements, documentation preparation and arrangements for insurance coverage
- Time utility - financing through own/banking facilities
- Currency risks - buys and sells in currencies required by sellers and buyers, does currency conversions, provides financial information and technical assistance and offers a currency gap guarantee
- Market risks - takes a long or short market basis position, deals with hedging, options, off-take and supply deals and price guarantee contracts
- Terminal exchanges - provides a brokering service and fixations
- Countertrade - handles the cotton side of the deal
- Quality - gives information on quality available, give quality recommendations for consumers, handles quality option/basket contracts and shows quality alternatives and,
- Culture - handles and is a link between remote developing areas and highly advanced and sophisticated centres of the world.

As can be seen from this list the services offered are considerable. The services he can provide to a producer are as follows:

- Up-to-date market information
- Information on competitors and prices
- Financing (producer and end user)
- Buying of all exportable qualities
- Buying on local terms
- Prompt payment
- Buying when producer can/wants to sell
- Buying unfixed at seller's call and,
- Contract guarantee for proper fulfilment.

Despite all these benefits, the choice of a merchant and/or agent has to be taken after careful consideration of the following criteria:

- Knowledge - of local circumstances (political, business and general, and of textiles in particular);
- Professionalism - cotton know-how
- Market coverage - covers large segment of end users
- Finance - financially sound and not dependent on sales to poor customers
- Language ability - avoid misunderstandings
- Integrity - particularly on pricing and,

- Infrastructurally sound, with good communications and administration.

Dangers to watch out for are:

- Representation - does agent handle other representations - cotton or non-cotton -, and how important and synergistic are they?
- Pricing integrity - does the agent ever try to change the price given by the principal?

Whilst most of these factors are producer oriented criteria, the trader himself has a predicament. Does he "think big" through looking at world supply/demand patterns, world economic conditions, the textile industry in general, fashion trends and currency movements, or does he "think small". Think small can be triggered by questions like will West Texas produce low micronaire cotton? Will XYZ Spinners go bankrupt? Will I find freight from Buenos Aires to Lagos? Will the price go up or down tomorrow? Whilst trying to find an answer to this dilemma, the trader may run out of time, money and courage and go broke. Risk and reward are ultimate advisers.

Producer/seller direct

In comparing the direct producer seller channel versus the merchant/agent channel, the question of control over distribution activities is the most telling argument as is the relationship which can be built up between producer and consumer. However, as can be seen from the previous section, the merchant/agent provides a number of services which are very powerful. Table 10.1 below summarises the main points of comparison.

Table 10.1 Comparison of international merchant and producer/seller

Merchant	Producer/seller
Global presence	Local/single market growth
Can choose to do nothing	Forced to act
Flexible sourcing/selling	Always long
Can offer client alternatives	Limited assortment
Staffing flexibility	Local staff
Currency/market risks	Currency risks
Market information wide	Limited market information
Handles prompt payments	May have to wait for payment
Quality guarantees	May not guarantee same quality

Whilst experience with traders may lead to some unsatisfactory outcomes, in the main merchants/agents in the long run offer a more convenient form of channel of distribution than direct dealings.

Market strategy

In designing a marketing strategy, both external factors (macro-environmental) and internal factors (micro-environmental) have to be considered.

External factors

The principle factor to consider here is "government". In general the role of government has increased over the years with few truly free, purely supply/demand oriented producer countries.

Government has an effect on three areas - production, exports and imports.

- **Production** - Government has sought to promote its own cotton industry by certain measures. This has led to a competitive edge by certain countries. In Egypt, Sudan and Turkey, input subsidies on fertilizers, seeds and pesticides have been used. Colombia and Pakistan have obtained credit at favourable terms. Syria, the CIS and Egypt have had ginning realisation. In most countries seed research has either been directly or indirectly funded by government.
- **Exports** - government influence here has been in minimum price legislation, special exchange rates, export credit facilities and export duties.
- **Imports** - Basically this has been free of influence for typical importing countries, but there are special ad hoc regulations for occasional imports. Because of the drought, Zimbabwe had to import lint in 1992/93 to keep its textile industry going. This, inevitably, was a special deal as Zimbabwe usually provides for its own needs from its own production.

As well as these forms of intervention, governments may pursue a specific policy for its cotton industry. The US cotton programme, for example, is to provide a stimulus to produce more or less and/or make US cotton competitive. This is done through loans, target price mechanisms, acreage reduction programmes, paid diversions, inventory reduction programmes and through the AWP (Average World Price).

Internal factors: A clearly defined strategy is required. Primarily the producer has to decide whether it will sell pre-season or when the crop comes in, and/or is it to be a one off or steady seller.

- **Pricing** - the producer has to decide on what pricing strategy to follow - average fixed, average on call, speculative or the use of options.

In theory the free market principle of supply and demand is applicable but in practice the question is whether the market is supply or demand driven. The demand for cotton depends on so many factors -elasticity, substitutes and the limits to cotton price elasticity, origin, shortages/disasters all affect price. Buffer stocks in cotton are not very relevant, as it would be difficult to make it work universally, hence limiting the price/supply option.

Added to the price equation is "basis" trading. A basis is defined as the difference to New York Futures, either on or off. Other definitions include "buying basis the country basis" or "basis Liverpool Index". Basis trading has become more prevalent for traders/exporters and mills for a number of reasons:

- the outright market position risk is too large (basis fluctuations are normally less than market hedging)
- in cases of default the trader's risk is basis difference which is often smaller than the market;
- many conserve cash for margins;
- a producer/exporter has the opportunity to obtain more US dollars (or less); and,
- a mill has the opportunity to obtain a lower (or higher) price.

A basis is established in the following way:

- Using US cotton as a common denominator. The US is a constant exporter, always in the market at any quality.

- Buying New York futures against a sale or selling New York futures against a purchase or directly quoting a basis.

The basic technical aspects include:

- choosing the correct month
- right to fix
- fixation deadlines
- before delivery
- after delivery (provision price)
- rolling forward or backward
- margin requirements in case of delayed fixation
- giving fixation orders.

Basis versus New York is inherent in any cotton price. New York futures are a legitimate way to hedge a market position for a merchant although one must realise that it is not often a perfect hedge. However, it is often the only way a trader can enter a far forward buying or selling commitment. For a producer or mill it is a risky attempt to maximise the dollar return for his product or lower the price of his purchase. It is also an indirect way to play with the futures market where a direct involvement for certain reasons is impossible.

So on channels, a decision has to be made whether to sell direct, or through merchants, or use a combination or sell to any market or selected markets. Similarly, rotation in the choice of staff and staffing (traders, classes, administrators) - a decision has to be made on whether to use the same staff, international expertise through travel/congresses or low key and/or train staff.

Marketing action

In order to make the cotton flow work the following must be observed:

- Marketing - know the markets, competition and customers; travel and meet people; document yourself; decide on a main focus (do not fragment); ensure feedback to producer, seed merchants and logistics providers
- Selling - select customers and agents carefully; look for standard terms with flexibility built in; stick to your agents and customers, lasting relationships build confidence, especially in times of difficulty; do not underestimate a first-class merchant's function; keep a customer file and be available at home
- Administrative - be efficient, have communication facilities and give prompt payment settlement
- Staffing - seek continuity of staff and provide training.

The cotton industry has a number of associations, which provide a variety of services. These include the International Cotton Advisory Committee (ICAC) which has government members and provides statistics and standards, ITMF which is user oriented, the Liverpool Cotton Exchange which does contracts and negotiation and the New York Cotton Exchange which deals in futures.

Physical distribution

As well as the institutional elements of distribution, channel management includes services and physical elements - transport, warehousing and inventory management. These are very specialised areas of distribution and include different modes of

transport - land, sea, air, and services offered by freight forwarders, agents, insurance etc. The readings accompanying this chapter provide most of the detail, so here the modes of distribution are briefly covered.

As well as negotiating all the paperwork and the quota or tariff agreements described earlier in this section, the exporting company has to consider storage, documentation and transportation. The importance of these elements can be seen in the following case study of 1991 for the horticultural industry in Zimbabwe, Malawi, Tanzania and Zambia, reported by Collett (1991)².

East Africa horticulture marketing

In order to establish a successful horticultural export industry it is important that the producer, the importer and the government consider the venture as a genuine partnership, built on trust. The most important player in this partnership is undoubtedly the government which controls most aspects of production and marketing, in one way or another and will contribute to the success or failure of the industry.

Most African countries face two main problems, namely, on the one hand unemployment and on the other, a shortage of foreign currency. Horticulture, being a major employer of labour and as a provider of export a significant earner of foreign currency, can contribute to easing both the employment and foreign currency situations.

World demand for high quality horticulture products, combined with the high cost of labour in the developed countries, has resulted in high prices and high returns for producers.

Partnership

In the partnership between grower, importer and government, each has different roles as follows:

Grower

- Horticulture is a high risk, high return industry requiring a very high standard of management
- Growers have to obtain, and employ if necessary, technical skills
- Transport options have to be considered
- Financial arrangements have to be made, particularly foreign currency and,
- At all times quality, quantity, and continuity has to be guaranteed.

Importer

- Importer has to create and maintain trust
- Provide information on demand, timing, price, and product
- Pay as soon as possible to ease cash flows
- Offer support to the exporter when prices drop
- Recommend new products and,
- Become a true partner to the grower.

Government

- Create the right climate to allow exports to expand
- Apply minimal regulatory requirements and ensure these are properly handled
- Ensure sufficient air freight capacity

- Maintain freight rates at acceptable levels for the industry as a whole
- Grant work permits for essential skills
- Make foreign currency available
- Waive duties and taxes to assist the industry
- Implement incentives
- Allow importation of new chemicals tested elsewhere and,
- Do everything possible to make the industry competitive in world markets.

Representative body

It is essential to form a body to look after all the requirements of the industry. Major representation must come from producers, who stand the major risk, but representation is essential from government and in particular, the Ministries of Finance, Agriculture and Transport. Officials serving on the body must be in a position to take decisions and act in the interest of the industry.

Selection of crops

Climatic conditions in each of the four countries varies from low lying hot to high altitude cool production areas capable of producing a very wide variety of crops. Final selection of crops to grow will depend on market demand, price and transport logistics. Long road and rail haul will determine which crops can be produced for export by air and when they will have to go by sea.

Production

Horticultural development already taking place is largely on commercial farms where capital, technical skills, irrigation and transport is on hand. Development in the small scale sector has been minimal due to the lack of capital etc., and the inability of the sector to raise credit without land title. It is highly probable that given the necessary training, capital etc., the small scale sector could produce very high quality, as is happening in Kenya.

The success of the commercial farming sector in producing export crops must be utilised to develop a parallel production system in the small scale sector. Initially, the sector must produce for the local market and change to export as skills are acquired.

Urgent development of the horticultural export sector in the region is necessary. The following figures indicate the relative importance of horticulture in countries in the region:

Kenya	50,000	tonnes
Zimbabwe	14,237	tonnes
Zambia	3,000	tonnes
Tanzania	1,000	tonnes
Malawi	200	tonnes
South Africa	+/-1 million	tonnes

Transport - air

International service (air): Export by air, weekly flights, freight rates, tonnes are given in table 10.2. Zimbabwe has 15 scheduled flights (passenger) per week to London, Frankfurt and Lisbon. It is hoped that by the end of 1991, Amsterdam, Paris and Geneva will be added to the list of available destinations. Cargo flights to Amsterdam, London and Cologne as well as Brussels by the national cargo carrier and the three charter flights are also available.

Zambia is currently served by BA, Aero Zambia and UTA with flights to London and Frankfurt. In addition, the national carrier NAC flies twice weekly to London and Amsterdam.

Tanzania has 18 scheduled flights to Europe and the Middle East through Dar es Salaam, some of which also stop at Kilimanjaro. As far as air services go, Tanzania is better served than any of the four countries visited.

Malawi has services to Amsterdam, London, and Paris with five flights per week. In addition, there is a weekly service by NAC offering 20 tonne capacity.

Table 10.2 International air service comparisons

	Malawi	Tanzania	Zambia	Zimbabwe
FLIGHTS				
Passenger	4	17	6	15
Cargo	1	1	2	6
TOTAL	5	18	8	21
FREIGHT RATES	> 500 kg	Unlimited	Per Palet	> 1000 kg
US\$/kg	1.30-1.7	0.90-1.20	1.50 (winter 1.25)	1.20 - 2.30
TONNES	32	400 Est	2642	7937

Regional services: Regional trade at this stage is very limited although air services are available significantly increase trade. Existing trade is limited to between Zimbabwe, South Africa, Angola and Mauritius and between Malawi and South Africa. In addition, Zambia has limited contact with Angola and Tanzania with Burundi.

Destinations: Traditional links between the four countries are all with the UK and it is not surprising the most of the cargo goes to this destination. Zambia and Zimbabwe, however, have built up significant flower trade with Holland and their requirements are largely met by cargo flights.

Statistics: Accuracy of statistics has to be questioned and most efforts to collect these be improved and linked to information available from the individual airlines. Major exports now taking place are from Zimbabwe and Zambia, both of whom have been in the business for only five years. Malawi and Tanzania export little air freighted cargo, but nevertheless have significant potential to export tropical, subtropical and temperate crops including fruit, vegetables and flowers.

Freight rates: Freight rates to international destinations vary considerably with Zimbabwe and Zambia the highest (see table 10.2). Rate structures in the region are considerably higher than in West Africa. These high costs have forced growers to concentrate on high value commodities such as flowers at the expense of lower value fruit and vegetables. Freight rate levels have to be set to give the airline a fair return while allowing the grower sufficient margin to be viable. A realistic return to the airline is essential to attract charters etc., to the region, without which growers could not export. The value per tonne of product produced for export must be high enough to meet the above criteria. Zimbabwe is currently receiving average prices of ZMD 8,000 per tonne CIF for produce and ZMD 11,000 for flowers. There is no doubt these values will improve as certain commodities are dropped and replaced.

Types of air services: Scheduled flights give preference to fruit and vegetables because of their heavy nature, while charter services prefer to uplift flowers at the higher freight rate. Charter operations prefer to load some heavy cargo as well, and a combination favoured in Zimbabwe is 90% flowers with 10% fruit and vegetables. The developing trend is for scheduled flights to concentrate on fruit and vegetables

into London and for charters and national cargo carriers to uplift flowers to Holland. Cargo to German destinations is increasing as exporters realise this market imports 70% of all flowers sold in Holland, and efforts are made to sell direct to the end user. Air transport into any country will depend on demand, including passengers as well as cargo, and as demand increases airlines will provide the required services. It is very much a chicken and egg situation, and if existing air services have no available cargo space, growers will produce crops in the hope that space will be made available. Cargo operators also provide services where these are required. In general, there is more cargo coming into the central southern region of Africa than flies out, and coordination is required to make maximum use of empty return flights.

National cargo carrier: Each country is dependent on its own national airline and this service must be made full use of before resorting to outside service. Landing rights in all countries are granted by the authorities who sometimes limit these to airlines who are prepared to allocate them cargo space. Government has in its power to allow in as many flights as requested by international carriers, but it also has an obligation to its own airline, and where an open sky policy is not in the national interest, these requests are turned down.

Tourism: Tourism plays a major part in deciding how many flights to allow in, and the fate of this industry is closely linked to that of horticultural exporting, as both are dependent on available air services.

Freight forwarders: A very important sector of Zimbabwe's horticultural export industry is the freight forwarder, who in addition to chartering extra cargo flights also provides cold stores at the airport. This new development is in addition to their normal services which include booking space, documentation, phytosanitary certificates and applying to government for export incentives on behalf of exporters.

Penalties: Zimbabwe has instituted a strictly controlled penalty system for growers/exporters who book space and then do not show up. Allowance of 48 to 72 hours is given for notification of cancelled bookings, and anyone who does not do this is fined the full cost of his cargo space. This tough measure has brought a large degree of responsibility into the industry and firm plans and charter bookings can now be made with confidence.

Positive points starting to emerge in air transport include the following:

- Full use of scheduled cargo capacity
- 75 to 90% total capacity utilisation of cargo flights
- Realisation of the importance of cold chain and cold store facilities at airports
- The role played by freight forwarders
- Responsible approach by all sectors
- Full government support
- Growers building their own facilities inside airport perimeters.

Transport - sea

Sea freight offers growers the opportunity to export horticultural crops in large quantities at lower cost. Whilst fruit is the main sea-freighted crop, the list can be greatly extended if "controlled atmosphere containers" or the latest concept known as "modified atmosphere packaging" are utilised.

Location of production areas and the distance from port will determine whether exporting by sea is viable or not. The availability of road and rail refrigerated transport is considered essential if quality is to be maintained. However, it is possible to transport citrus up to a week without refrigeration. Present routes through Mozambique are seriously affected by pilferage and theft, with extraordinary

precautions having to be taken. Zimbabwe in 1990 suffered losses of USD 3.4 million due to theft of sugar while en route to Maputo, while Swaziland has re-routed its sugar exports through Richards Bay in South Africa for the same reason.

Crops which are considered suitable for export by sea are citrus, deciduous fruit, sub-tropical fruit, pineapples and bananas, all of which are moved in considerable quantities. FOB prices for sea-freighted crops are in many instances the same as if the product was air-freighted, due to the longer time in transport. Pineapples ex Dar es Salaam give the same FOB price for both air freight and sea freight.

Handling

Horticultural exports from Africa to EC markets have to compete with high quality products from around the world, many of which are produced in developed countries under modern cultural methods and strict quality control. Quality depends on a combination of field management, post-harvest handling and an efficient transport system from field to market. Quality coming out of the field cannot be improved on, but only maintained, and it is essential in the first instance to produce high quality products.

Field production of high quality products is dependent on the correct selection of seed and variety, spacings, fertilisation, insect and disease control and time of harvest. Post-harvest handling involves reaping under correct conditions, including cutting correctly from the plant, placing into containers that will not damage the product, reaping when temperatures are low and reaping two or three times a day to ensure the product is harvested at the ideal stage. Having reaped correctly, products have to enter the cold chain - be refrigerated as soon as possible and remain so until they are bought by the customer in the retail outlet.

To ensure the most efficient cold chain conditions, products must be reduced in temperature to the ideal for the product as soon as possible. Every farm must have its own cold store complex, and so must the airport where the produce is delivered before export. Some cold chains are more complicated than others. The most sophisticated should have separate intake and dispatch cold stores, with the central grading and packing area also having refrigeration or being subjected to lower temperatures. Time taken for grading and packing must be kept at a minimum to prevent products increasing in temperature during this process. The more sophisticated grading sheds allow for the product to be packed into the airline containers in the dispatch cold store, and the containers being transported to the airport. This process reduces handling considerably and allows the exporter to pack carefully with minimal damage and discolouration to the boxes. A wide variation from the ideal handling system is found in different countries. Whilst Zimbabwe makes the most use of cold stores and suitable transport, one exporter in Tanzania does not have a cold store on the farm, and the first refrigeration takes place at the airport. The importance of refrigeration is widely known. Cold stores are available at all the main airports, apart from Lusaka where the growers are building their own facility. Zimbabwe has the most sophisticated cold stores with several being available, both at the airport and in Harare itself. Plans are developed in Zimbabwe to construct a very modern large cargo terminal which will provide the most modern facilities for horticulture.

In Zimbabwe, freight forwarders play a very significant role in handling exports and maintaining storage under ideal conditions until loading. Several have their own cold stores and handling complexes. In addition, freight forwarders charter flights and compete on freight rates with the national carrier.

Handling of crops for the local market is a major feature of marketing in Zimbabwe. Apples, pears and citrus are stored on farm and by wholesalers, to maintain prices. These crops are stored for three to four months and sold during high price periods. Onions are also stored for up to 5 months for the same reason, but this is only done

by the larger producers.

The very significant awareness of quality, and particularly post-harvest handling in Zimbabwe, is due to regular seminars being held with international speakers from USA, Europe and South Africa addressing these meetings. Zimbabwe growers also travel regularly investigating the markets and discussing requirements with their importers. Regular contact cannot be over-stressed.

The high cost of transport in some producing countries can significantly affect the viability of a horticultural export industry. In order for a new industry to survive and develop, very careful consideration must be given to product selection and presentation. Products requiring high capital investment and specialized technical skills are normally in short supply and at high prices, while others which can be produced more easily tend to be over supplied and low priced. High prices can also be achieved by pre-packing and semi-processing at source. Demand is increasingly swinging towards well presented pre-packed products. Attention must be paid to semi-processed products such as vegetables and fruit salads pre-packed at source. These developments, in addition to realising higher prices, can significantly reduce air transport costs by making better use of available air space.

Maximising pre-packing in farm pack-houses. The value per tonne of exports from Zimbabwe of both fruit and vegetables and flowers has increased considerably by selecting the high value lines and varieties and excluding others. In addition, more importance is being placed on value added by

Mangetout prices can be increased by up to one pound sterling by pre-packing instead of selling in 2.5 kg boxes. Likewise, a switch from summer flowers to roses has increased the value per tonne considerably. Indications are that Zambia in particular is following this trend, while recent developments in Malawi could lead to export of pre-packed products to supermarkets.

Importers

Following recent bankruptcies of importers in Europe, as a result of which exporters lost a lot of money, it is now more essential than ever for exporters to know who they are dealing with. Records and reputations of importers are well known in the industry and exporters must make enquiries before entering into firm commitments worth hundreds and thousands of dollars.

Payment terms are important in that some imports take 3 to 4 months to pay while others make part payments immediately on shipping with the balance paid 2 to 4 weeks later, after sale.

Recent trends between importers and exporters is towards establishing long term partnerships or understandings for the benefit of both parties. Importers require high quality products on a continuous basis and are prepared to assist growers to achieve this. On the other hand, growers want reliable outlets who will supply all the necessary market information, etc.

This example concludes this section on distribution. Along with price, distribution forms a major element in international marketing and the detail is essential if success is to be guaranteed.

Chapter Summary

Along with price and promotion decisions, a decision has to be made on the distribution system. There are two components to this - the physical (order processing storage/warehousing and transport) and the institutional aspects. The latter involves the choice of agents, distributors, wholesalers, retailers, direct sales or sales forces. Again, each has its own advantages and disadvantages.

However, it is in the channel of distribution that the international marketer can encounter many risks and dangers. These involve many transaction costs both apparent and hidden. Risks include loss in transit, destruction, negligence, non-payment and so on. So careful choice and evaluation of channel partner is a necessity.

Key Terms

Agent	Distribution channel	Physical distribution
Basis trading	Forward	Resource/Management contracts
Broker	Forward markets	Retailer
Contracting	Horizontal integration	Vertical integration
Cooperative	Personal trading networks	Wholesaler
Review	Questions	

Review Questions

1. Distinguish between "institutional" and "physical" distribution.
2. What are the principle advantages of using brokers, personalised trading networks and associations in the marketing of international commodities?
3. For any agricultural product of your choice discuss the factors which have to be considered in the choice of a channel of distribution.

Review Question Answers

1. "Institutional" distribution - definition

The middleman between producer and end consumer who may take title and change the form of the product handled, e.g. wholesaler, retailer.

"Physical" distribution - definition

The logistics of the distribution system including transport, storage and order processing.

2a) Brokers

Advantages

- better informed by buyers and sellers
- socially skilled and adept at forming buyer/seller links
- bring "personal touch" to parties who may not communicate well with each other
- bring economies of scale
- bring stability to market conditions.

Personalised trading

Advantages

- high context cultural exchange
- minimise administration and paper work
- reduce information, monitoring, bargaining and enforcement costs
- may become proxies for laws
- give priority or focused treatments.

2b) Association

Advantages

- counter "lumpy investment" phenomenon
- reduce or pool members' risks
- lower transaction costs of members
- reduce marketing costs
- act as a countervailing power between buyers and producers.

3. Factors in channel choice

- company objectives and goals
- resources available
- market knowledge, coverage
- risk of business
- transaction costs
- marketing costs
- language
- space and time utilities
- currency risk
- provision of information on prices and competition
- payment system and credit
- integrity
- infrastructural soundness.

Exercise 10.1 Distribution alternatives

The following exercise is aimed at testing a student's ability to discover the different ways in which products reach their end user market. As such, the student will learn and understand the different methods of market entry and the modalities necessary to achieve this.

Describe fully the method of entry, documentation and other modalities required in the following situations.

- a) The export of Zimbabwean flowers to Japan
- b) The export of surplus Tanzanian maize to Zambia
- c) The export of Nali products (processed chilli sauces) from Malawi to the UK
- d) The import of Botswanan beef to the EC
- e) The export of John Deere tractors to Kenya
- f) The export of Zimbabwean timber products (hard woods, wattle, paper pulp etc.) to Zambia

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Chapter 11: Promotion Decisions

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Products or services will not sell unless people are told about them. It is true that few companies from developing countries are global in operation, so much of the promotion process is limited to either third party advertising (for example the Dutch advertising Kenya grown flowers) or taking part in international exhibitions (for example the Zimbabwe International Trade Fair in Bulawayo). As many primary products of developing countries become the end products of developed countries, most promotion is limited to mentions of origin in developed country promotion.

Nonetheless, the rules still apply for effective promotion, whether it is of limited or more extensive nature.

Most basic marketing textbooks cover the "ground" rules for effective advertising and promotion and so the reader is referred to these rather than repeat these again here. It is usual to distinguish between "advertising " and "promotion". Advertising is defined as:

"Any form of communication in the paid media".

Promotion, on the other hand, is defined as:

"An incentive, usually at the point of sale, intended to enhance the intrinsic value of a product or service".

Other expressions in common use are "above the line" and "below the line", the line being an imaginary one, defining the boundary between promotion from the retailer to consumer and the other from manufacturer to retailer.

Chapter Objectives

The objectives of this chapter are:

- To show the benefits of global advertising and promotion

- To identify the special problems in international promotion
- To describe the steps involved in designing a promotion campaign.

Structure Of The Chapter

The chapter starts by looking at the nature of global promotion and the special difficulties involved when sending messages across global boundaries. These are related to translation and transmission problems (non-availability of media) and cultural interpretations. The chapter then goes on to describe briefly the main steps involved in a communications campaign design.

The nature of global promotion

Generally advertising is used primarily for low cost, mass volume consumer products. Products like fertilizers, canned and fresh produce and tobacco - all products which are used by end consumers - are the subject of heavy promotion. In intermediate products like timber, leather and cotton the advertising may be more limited in nature due to the fewer end purchasers of the raw material. Until recently, per capita GNP and advertising were directly correlated, due to the more widespread availability of media and higher incomes, giving a larger potential market for products. This is no longer the case. Optimal levels of advertising occur where the advertising/sales overseas effect is equal to the marginal advertising expenditure. The problem is in estimating the levels of each.

Global expenditure on advertising is believed to be more than US\$ 200 billion, with the US the largest spender and Japan next. Individual companies like General Motors and IBM are each spending billions on advertising per annum. Worldwide, although less in Africa, the average advertising expenditure as a percentage of GNP is around 1.4%. The major expenditure is on the television medium, the USA spending over US\$ 30 billion on this medium. In many African countries radio is widely used, especially where television is not available, as in Malawi. Global programmes like CNN news and MNet television have dramatically increased the global advertising and direct selling possibilities via satellite. Print advertising continues to be a major medium in Africa.

Global promotion

When organisations advertise across international boundaries a number of important factors have to be taken into consideration. Whilst the process is ostensibly straightforward, (that is someone (seller) says something (message) to someone (buyer) through a medium) the process is compounded by certain factors. These are illustrated in figure 11.1.

Figure 11.1 The advertising paradigm

These mitigating factors can be called "noise" and have an effect on the decision to "extend", "adapt" or "create" new messages.

Language differences may mean that straight translation is not enough when it comes to message design. Advertising may also play different roles within developed, between developed and underdeveloped and within underdeveloped countries. In developing countries "education" and "information" may be paramount objectives. In developed countries, the objectives may be more persuasive.

Cultural differences may account for the greatest challenge. However, many, notably Elinder (1961)¹ challenged the need to adapt messages and images, as he argued that consumer differences between countries are diminishing. Changes may be needed only in translation. However, this is only one point of view, as there is no doubt that cultural differences do exist across the world. For example, it would be

quite unacceptable to have swimsuited ladies advertising sun care products in Moslem countries.

Three major difficulties occur in attempting to communicate internationally: the message may not get through to the intended recipient, due to a lack of media knowledge; the message may get through but not be understood, due to lack of audience understanding and: the message may get through, be understood but not provoke action. This may be due to lack of cultural understanding.

Media availability is a mitigating factor. Take for example, television. Whilst in Africa a number of countries do have it, the extent of its use and time available may be limited. Media use and availability, coupled with the type of message which may or may not be used, is tied to government control. Government may ban types of advertising, as is the case of cigarettes on British television. Intending advertisers should refer to the appropriate codes of advertising practice available in each country.

Campaign design

Before embarking on a promotion campaign, the following questions, among many others, must be answered. What can be said about the product? Which audience is being reached? What resources does the organisation have? Can someone do it better, say an agency? The basic steps in designing a campaign are set out in figure 11.2.

Figure 11.2 Basic steps in conducting an advertising campaign

Objectives

Advertising must only be undertaken for a specific purpose(s) and this purpose must be translated into objectives. Whilst difficult to directly attribute to advertising, persuasive advertising's ultimate objective is to obtain sales. Other objectives include building a favourable image, information giving, stimulating distributors or building confidence in a product. Whatever objective(s) are pursued, these must be related to the product life cycle and the stage the product is in.

Budgets

Budgets can be set in a variety of ways. Many budgets use a percentage of past or future sales, objective and task methods, or rule of thumb. "Scientific" methods include sales response methods and linear programming.

Agency

Agencies can be used or not depending on the organisation's own abilities, confidence in the market and market coverage. Many organisations, like Lintas and Interpublic, are worldwide and offer a wide range of expertise.

Message selection

Message selection is probably where the most care has to be taken. Decisions hinge on the standardisation or adaptation of message decision, language nuances and the development of global segments and customers. Message design has three elements, illustration, layout and copy. Advertising appeals should be consistent with tastes, wants and attitudes in the market. Coke and Pepsi have found universal appeal. With the "postmodern age" now affecting marketing, message design is becoming particularly crucial. It is not just a question of selling, but of crafting images. It is often the image, not the product, which is commercialised. Products do not project images, products fill the images which the communication campaign projects. Coke's "Life" theme is a classic in this regard.

In illustrations and artwork, some forms are universally understood. Coke, again, with its "life" theme is applicable anywhere. Cheese and beer adverts would go well together in Germany, but it would have to be cheese and wine in France.

Copy, or text, has been the subject of much debate. Effective translation requires good technical knowledge of the original and translated language, the product and the objectives of the original copy. Care has to be taken that the meaning does not get lost in translation.

Media selection

There is a great difference in variety and availability of media across the world. The choice of media depends on its cost, coverage, availability, character (national or local or international) and its "atmosphere", for example in Zimbabwe posters versus adverts in the Financial Gazette.

In advertising the choice is television, radio, press, magazines, cinema, posters, direct mail, transport and video promotion. In promotion the choice is wide between money-off offers, discounts, extra quantities, and so on. Other forms of promotion include exhibitions, trade missions, public relations, selling, packaging, branding and sponsored events. Governments can be a very powerful promotion source, both by providing organisations like Horticultural Promotion Councils and by giving information and finance. GATT/UNCTAD Geneva provides a promotional service, giving information about products to interested parties. Trade Fairs are popular both as a "flag flyer", and as a product display and competitive information gathering facility. There are over 600 trade fairs worldwide; These include the Hanover Fair, Germany, the Royal Agricultural Show, UK for machinery and the Zimbabwe International Trade Fair for agricultural produce and other things in general. The criterion for participating in fairs is always cost versus effectiveness.

Campaign scheduling

Scheduling international campaigns is difficult, especially if handled alone rather than with an agency or third party. Scheduling decisions involve decisions on when to break the campaign, the use of media solely or in combination, and the specific dates and times for advertisements to appear in the media.

Evaluation

Advertising campaign evaluation is not very easy at the best of times. Whilst it would be nice to say that "X" sales had resulted from "Y" advertising inputs, too many intervening factors make the simple tie-up difficult. Evaluation takes place at two levels - the effectiveness of the message and the effectiveness of the media. Few African developing countries, except Kenya, have any sophisticated methods for campaign evaluation. Measures include message recall tests, diary completion, and brand recall.

Organisation and control

Whilst companies like Nestle may have centrally organised and controlled advertising campaigns, many are devolved to local subsidiaries or agencies. The degree of autonomy afforded to local subsidiaries depends on the philosophy of the organisation and the relative knowledge of the local market by the principal.

Case 11.1 Zambezi Lager

One of Zimbabwe's successes in international marketing has been the launch of Zambezi lager into the highly competitive U K lager markets. Through use of a UK agency, clever and impressive message design, including scenes of the Victoria Falls, and a premium pricing policy, the product has been established in a number of London outlets. At a retail price of nearly £2 per bottle, this "designer" lager (incidentally sold in a bottle) is nearly nine

times the price it would sell on the local Zimbabwe market Television advertising, coupled with retailer support, enabled Zambezi to be positioned in a quality, clear beer segment. This example goes to prove that a quality "buying proposal", through the use of a clever creative proposition, can be universally accepted.

Whilst truly global advertising, or even regional advertising, is a phenomenon not normally associated with African countries, as time goes by it may be. Unfortunately few countries see or use the overseas media to advantage. For developing countries, trade missions can be very useful for promotion. This is a relatively cheap but effective medium. Few countries activate their overseas embassies sufficiently to generate possible trade. If, however, it is done, the foregoing sections have to be considered carefully in order that possible mistakes are avoided.

Chapter Summary

No product or service will sell unless it is promoted. Whilst many commodities from developing countries end up as ingredients in downstream industries, which themselves may promote their brand, many suffer from the lack of a reputation.

As with product choice, promotion decisions are subject to the "standardisation" versus "adaptation" argument, depending on the similarities and differences between product and markets. When the appropriate strategy is chosen then decisions have to be made on the promotional campaign objectives, budget, message and media selection, scheduling and evaluation.

As with global intelligence gathering, promotion campaigns can be subject to all sorts of distortion or "noise". These are mainly related to cultural differences but could also be caused by physical problems including lack of media availability and skilled personnel.

Key Terms

Advertising Agency Media evaluation and control Media scheduling
Budget Media Message promotion

Review Questions

1. Describe the arguments for "adaptation" versus "standardisation" of advertising campaigns when developing global communications strategies.
2. Outline the difficulties which could occur when conducting an advertising campaign across national boundaries.
3. Taking any two of the following products describe what you think is the communications strategy for each one:
 - a) Coca Cola
 - b) Del Monte canned fruits
 - c) John Deere tractors
 - d) Bayer Agro Chemicals.

Review Question Answers

1. Adaption versus standardisation Definitions

- Adaption - changing the communications strategy to fit the nuances of each recipient country; and,
- Standardisation - same communications strategy irrespective of

country.

Arguments

- language differences;
- cultural differences;
- physical differences e.g. media form; and,
- legal or regulations differences.

Students should expand on the answers given.

Difficulties

Students should firstly describe steps in conducting a campaign:

- set objectives
- set budget
- Agency use if need be
- Message selection
- Media choice
- Scheduling campaign
- Organisation in evaluation and control of campaign.

Difficulties are associated with a number of factors as follows:-

- Availability of agencies, media, research facilities;
- Cultural differences - language nuances, translation, mores and attitudes, literacy;
- Regulatory and Government issues - what can or cannot be advertised;
- Control issues - control of agency, campaign, expenditure;
- Message difficulties e.g. message not getting through to intended recipient - message getting through but not understood; message getting through, understood but no action resulting;
- Lack of support from retailers, etc.
- Market issues - location, dispersion, buying power, reachability.

3. Students should describe the strategy along the following times:-

- Adaption versus standardisation (e.g. Coca Cola standardised)
- Objectives of campaign
- Mix of communications elements - advertising, promotion, selling, public relations and exhibitions and emphasis
- Message intention and target audience.
- Mix of target audience - consumers, middlemen or other "publics".

Exercise 11.1 Carmel Of Israel

Read the following case "Carmel of Israel" and attempt the following exercise.

Task

a) Identify the "key success factors" in Carmel's operation under the following headings:

- Competitive strategy
- Market entry strategy
- Product
- Price
- Distribution
- Promotion.

b) Do you foresee any dangers to Carmel's international operation? How might they be overcome?

Carmel of Israel

Carmel. The name is practically synonymous with quality and taste in fresh agricultural produce. Its beginnings date back to 1957, when Agrexco, the Agricultural Export Company, was founded and created the Carmel label. A modest shipment of several hundreds kgs of potatoes and gladioli was Carmel's first venture into the foreign trade. Today, Carmel products grace supermarkets shelves throughout Europe and North America, and Agrexco is one of the largest and best known agricultural export companies in the world.

Agrexco was established to plan and organize the export of Israel's fresh agricultural produce. In pre-State days, local production of dairy, fruit and vegetables had more or less coincided with domestic consumption. With Independence, however, new agricultural settlements rapidly sprouted up all over the country, and after a few years of intensive, high technology farming there were large surpluses. Agrexco was formed to meet the pressing need for planning, control and aggressive, forward looking marketing.

In the course of time, Agrexco has become an efficient, well-managed organisation. It learned to compete effectively with long-established rivals in Europe and to deal with the varied and sundry problems that inevitably arise in producing crops and bringing them to market. Before long, agricultural production for export was no longer dependent on chances surpluses, but solidly based on advance planning and dynamically researched product development, which enabled Israeli farmers to grow exactly what European and America consumers wanted, and when.

Among the mainstay of Carmel's strength on the international market are the sheer variety and quantity of its produce. To attain such concentrations, growers were pooled, maximal product uniformity encouraged, and a strict system of quality control implemented. To Agrexco's credit, Israeli agricultural produce has steadily improved in quality and scope, increasingly penetrating new foreign markets while providing ever better service to long standing customers and friends.

Structure and organization

Agrexco is a registered company jointly owned by the Government of Israel, acting through the Ministry of Agriculture, and the farmers. Its sixteen member Board of Directors is evenly divided between eight representatives of the government and eight representatives of the growers. The latter consist of one representative from each of the farmers' four produce marketing boards (the fruit board, vegetables board, flower and ornamental plants board, and poultry board) and four representatives of Tnuva, which is Israel's foremost agricultural marketing cooperative. This mixed ownership gives the farmers considerable say in Agrexco decisions on both current issues and long-term policy, while protecting the public

interest.

Although Agrexco operates on a commercial basis, it is a non-profit organization, as it stipulated in its Articles of Association. All sales revenues are shared by the producers and their representatives organizations.

Most of Agrexco's activities are carried out by its local divisions and overseas branches, but for maximum efficiency and operational flexibility subsidiaries and overseas agents provide many vital services.

Produce supply contracts

Approximately 12,000 farmers supply produce to Agrexco. Some of them have individual contracts. Others, such as collective settlements, like kibbutzim and moshavim have bulk contracts. These are two main types of supply contracts: an open contract and a minimum guaranteed price contract. Of all the produce that Agrexco markets, only about a third is marketed under minimum price terms, and that consists mainly of seasonal vegetables. The major portion of Agrexco's fruit and flower exports is contracted through open contracts at market price. In most cases farmers are paid the difference between the gross market proceeds and calculated marketing and transport expenses. At the end of the year, when calculations are adjusted to actual costs, the farmer may receive further payment. Agrexco maintains an "open door" policy towards farmers who feel comfortably at home at Agrexco offices. The easy atmosphere enables Agrexco to fulfil its function as a mediator, bringing the Israeli grower up-to-date information on ever-changing consumer tastes abroad and encouraging him to adapt his production accordingly.

Marketing

Marketing agricultural produce is different from marketing every other product. Agricultural produce is alive and sensitive. Its quantity, quality and price are almost totally dependent on natural conditions. They literally change with the weather. Moreover, unlike the other products, agricultural stock simply cannot be kept. This means that, unlike other producers, the farmer has no way of regulating the price his goods will fetch on the market. He cannot even assure himself a definite price when he ships them for export.

To deal with these limitations, Agrexco has created an extensive and flexible marketing system which balances, reliable and efficient consumer service with optimal prices for its farmers. Most of its sales are made through a panel of local importers working with the overseas Agrexco branches; some sales are made directly from Israel. In other case, most products are sold on a "regulated consignment" basis. How does it work? Taking into account the short-term supply, forecast and other pertinent market information, Agrexco sets minimum prices for about a week in advance- this to obtain at least a certain stability. But then if anything should change, if a product doesn't sell at the suggested price, for example, or if a bad weather results in an unexpected shortage of something else, prices are readjusted - this for the sale of flexibility.

Agrexco's marketing network consists of nine sales centres, eight in Europe and one in the U.S.A., and two merchandising centres in Israel, one in Tel Aviv, which handles fruit, vegetables and other edibles, and the other at Ben Gurion Airport, which handles flowers, ornamental plants, and cuttings, bulbs and seedlings. In countries where Agrexco does not have a branch or trustee, in Australia and Japan for example, it operates through a local agent. Agrexco has branches in Copenhagen, Cologne, Frankfurt, London, Milan, Paris, Rotterdam, Vienna, Zurich and New York.

One of Agrexco's major assets is the excellent working relationships it has developed with the importers and wholesalers, and especially with the large

supermarket chains. Carefully cultivated over many years, these close ties have been a key factor in Agrexco's success. They have enabled Agrexco to keep its finger, so to speak, on the consumer pulse and to supply exactly the products and varieties that ate wanted in the desired amounts, at just the right seasons and in the most popular packaging.

Sales promotion and market research

To find out what its customers want, Agrexco conducts extensive market research into buying habits and consumer preferences. It searches opportunities for new products and for improving its tried and true standbys. It evaluates the success of its marketing, advertising and promotional campaigns, and its follows up to the introduction of new products into the market. All of this prepares the ground work for penetrating new markets and keeps existing ones healthy and growing.

Advertising and promotion let our customers know what Agrexco has to offer and how they can enjoy its many products. Overall planning is directed form the Agrexco office in Israel, while the branches, which are in touch with local media are buying patters are directly responsible for the advertising, public relations, in-store demonstrations and special sales campaigns in each of their countries.

Transport

Every year about 500,000 pallets of Carmel products, totalling over 350,000 tons, leave Israel by sea or air.

During the main export season, Agrexco has four refrigerator ships, two of them bearing the Carmel name, in constant operation, as well as a support service of ventilated liners. Agrexco products set sail from Haifa and Ashdod- at the latter, the Carmel Kor (an Agrexco subsidiary) terminal handles 200,000 tons of fresh produce a year. About 80% of the produce is sent to the allocation and distribution center in Marseilles: the rest is shipped directly to ports in the U.K. and Northern Europe. Especially sensitive products, such as flowers, goose liver and strawberries, are sent exclusively by air. Approximately 70,000 tons of fresh agricultural produce leave Ben Gurion Airport every year. Seventy percent of it is flown during the winter season, carried at the rate of about 2500 tons a week, on 20-25 weekly jumbo jet cargo flights, as well as on additional regular flights when necessary. About 45% of the air cargo lands at the allocation and distribution centre in Cologne, Germany; the rest is sent to its various destinations directly.

The Agrexco terminal at Ben Gurion is able to store a large range of produce in quantities that amount to the capacity of four 747 jumbo jets. Boasting an expert staff, the terminal has been equipped with the latest in sophisticated refrigeration, conveyor and computer system to ensure that the fresh produce reaches its destination in the shortest time and best possible condition.

Indeed, the need to transport perishable goods and to keep them in peak condition over very long distances has made transportation Agrexco's largest single expense, far larger than for any of its competitors. Agrexco's leased refrigerator ships, for example, have been especially adapted to transport products requiring different storage conditions and a carefully regulated range of temperatures. Only constant efforts to cut costs through improved organization and technology have enabled Agrexco to stay in the running. Among any other efforts in this direction, Agrexco is cooperation with shipping experts to create a vessel that will meet its own strict specifications for both efficiency and economy. It invests funds, technological expertise and engineering vision to design today the ship that will be right in the future.

Quality control

Carmel products are under constant quality control, from planting through picking, packing and delivery. All along the way, the products are repeatedly and meticulously inspected for export suitability according to international criteria.

The supervisory process begins with the preparations of the fields and the planting and growing of the crops. Special Agrexco teams dispersed all over Israel provide extension services, which keep the Tel Aviv office informed of what's happening on the farm and assists the growers with needed advice. More than once, disaster has been averted by disqualifying produce while it was still in the ground or by having district supervisors offer on-the-spot counselling.

The product itself is first inspected at the transit and packing stations. Here the Phytosanitary Administration of the Ministry of Agriculture determines whether each and every item does or does not meet internationally agreed upon export standards. Those that do not, are disqualified and channelled to the domestic market or slated for destruction.

At the ports, Haifa and Ashdod seaports and Ben Gurion airport, the produce that has been accepted for export undergoes a rigorous sampling inspection.

Agrexco inspectors examine anonymous samples of the outgoing produce. With the growers identified only by number, Agrexco inspectors look for qualities of taste and appearance above and beyond the minimum required. Growers receive bonuses in accordance with earned quality points. Since remuneration may reach as high as 30% of the average price of the product, the practice serves as a powerful incentive for the farmer to produce superior goods.

The final inspection takes place at the branches abroad. Quality inspectors working alongside the branch managers report to Israel on the quality and conditions of the shipments, follow up consumer complaints, re-sort and re-package produce that has been damaged en route, and provide feed back on new crops and varieties.

Packaging for every product

Carmel products travel a long hard road from the field to supermarkets shelves in European cities. The average route was calculated at 3,000 km. So that every one of hundreds of products reaches its destinations fresh and undamaged, each must be properly packed, in keeping with its particular characteristics and sensitivities. In charge of this task is the packing department, which handles the planning, specifications, purchase and distributions of the packaging. The unit utilizes a large variety of materials and technologies, including paper and plastic, cardboard and metal, wood and fibre, rubber and resins, and a range of receptacles, from bulk crates, cardboard containers, wooden pallets, punnets, bags, and sleeves through to wrapping papers and plastic bags. The annual packaging budget amounts to approximately \$15 million.

The packing department is highly respected at home and abroad. It has been honoured with the Kaplan prize for "developing effective packaging which results in significant savings.

Keeping cool

Israel is a natural greenhouse. But along with many advantages of its hot sunny climate are a host of difficulties that begin as soon as the fruit or vegetable is detached from the plant and end only when it arrives at market. To stay fresh and crisp over the thousands of kilometres it travels, the produce has to be kept at the right temperature along the entire route, in an unbroken cooling chain. It is picked and packed in the cool early morning hours, promptly loaded onto refrigerator trucks, and kept under refrigeration in the warehouses, ships, planes and trains as well.

Applying science

Agrexco products, like Agrexco customers, are pampered. Through unrelenting R & D, Agrexco searches out and develops optimal methods for cooling, storing, packing and shipping every one of its more than four hundred products. It carries out experiments in coordination and cooperation with Israel's prestigious Vulcani Institute for Agricultural Research, the Ministry of Agriculture and integrated regional research units.

The end product: better tasting fruit and vegetables with longer shelf life, at lower costs to the consumer and higher returns to the grower.

For example, thanks to especially developed plastic wrapping, the sensitive eggplant, which once had to be sent by air, can now be transported via the more economical sea route. With another variety of plastic wrapping, the highly perishable strawberry now arrives at market in better condition and lasts longer once there.

The application for vacuum pre-cooling has worked similar wonders for lettuce, extending its shelf life seven full days and enabling it, to be sent to ship.

For avocado, a series of experiments has reduced the spoilage rate from a hefty 10%. A long series of experiments on celery and Chinese leaves has resulted in their being kept at optimal temperature, humidity and ventilation. As for the exotic Sharon fruit, a new variety of persimmon, developments in its storage transportation have lengthened not only its shelf life but also its marketing season.

Communications

Agrexco's on line communications system, operated by its subsidiary Carmel Computers, provides a round-the-clock, two-way flow of information and services running non-stop between the large central computer in Agrexco's Tel Aviv office and the numerous terminals in its department in Israel and its branches and depots abroad.

One example of the efficient use that Agrexco makes of its state-of-the arts communications network is in the marketing of cut flowers. Flowers, as everyone knows, have to be virtually whisked to their destinations if they are to retain their freshness and glow. Once they are cut and arrive at the packing stations Israel, the challenge is to get them to European supermarkets and flower shops no later than the very next evening. The first step is to check them. As the cartons are packed, each box is supplied with a bar code listing the variety, size, number and quality of the flowers inside.

The bar code is read by a computerized optical reader, which relays the vital statistics to Agrexco's central computer, which, in turn, sends the details overseas. The advance information arrives in Europe even before the plane takes off, allowing the branches to schedule sales before it lands.

From here on, the branch computer comes to life - sending bills, keeping stock, following up payments and relaying marketing and accounting information to company headquarters. And the central computer, which in the meantime has also taken in all incoming orders and kept tabs on outgoing shipments, analyzes the sales data, using software that translates foreign currency figures to dollars F.O.B.

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Chapter 12: Global Marketing, Logistics - Access And Documentation

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Exporting and importing are two sides of the same coin; both supply customers with products manufactured outside the country. Exports now account for over 15% of global GNP and are growing at an annual compound rate in excess of 10%. Export marketing requires a knowledge of the target market, a marketing mix decision, planning, organisation and control and information systems. Exporting is often an incremental process, from unsolicited order filling to deliberate export planning. No doubt few firms will export unless profit and growth opportunities are expected. Theories of trade stress the basis as "comparative advantage", but in practice this is of little use. The most significant factors affecting trade are "firm" not "product" characteristics. McGuinness and Little (1981)¹ found two firm characteristics "restrained from exporting" and "high technology" as opposed to product characteristics had an overwhelming influence on the decision.

Whilst exporting and importing are, this is not the way governments look at it when making policy. Simply, policy can be construed as two-faced. Often, every effort is made to improve and encourage exports whilst every effort is made to curb imports. The combination of policy measures can have an offsetting effect. Government, however, seeks to support export activities in three ways: by applying lower rates of tax to earnings from exporting or refunds; outright subsidies or assistance like information giving. Many African countries have incentives like export retention

schemes and revolving schemes to aid potential exporters.

Chapter Objectives

The objectives of this chapter are:

- To give an understanding of the complexity involved in managing global marketing logistics
- To describe the terms of access, trade and the different types of export documentation required in global marketing and
- To show the importance of ensuring that export documentation is in order and legal recourse of any defaulting in global transactions.

Structure Of The Chapter

This chapter is very detailed, necessarily so, given the nature of the subject matter covered. The various terms of access are described, including tariffs and duties, and the non-tariff barriers which can be quite effective in reducing the normal terms of trade. The chapter goes on to discuss international contracts, the special terms of trade (FOB, CIF etc.) and other important export documents. These include commercial documents like invoices, certificates of origin, and transport documents. The chapter concludes by looking at financial, insurance and transport documentation and the legal ramifications of any defaulting in international transactions. Note that all cases quoted in this chapter were sourced from Kwelepeteta (1991)².

Complexity

Exporting and importing requires an enormous amount of thought and attention to detail, especially documentation. If documents are missing or wrongly filled out then the transaction will be void. Consider the following example of the exportation of horticultural produce from Kenya.

Case 12.1 Kenya Horticultural Produce Export

In organising for export, the exporter needs to be within reach of and must have an office with telephone, fax or telex since the exporter is dealing with a highly perishable commodity and decisions have to be made fast with no time lag. The documentation required is as follows:

1. a Certificate of Incorporation from the Registrar of Companies
2. a miscellaneous occupational Licence (Export) from the Ministry of Commerce
3. export Licence from HCDA (a fee of Kshs. 1,000/=)
4. a bank account
5. written contracts with farmers for supply of produce
6. have adequate knowledge on the quality standards for horticultural produce.

Flow of documents in export of horticultural Produce by Air

A shipper is required to submit the following documents to facilitate the processing of exports:

- a) A duly complete invoice
- b) CD3 form (from Central Bank of Kenya) available from commercial banks
- c) Appendix HCDA 3 from HCDA (Horticultural Crops Development Authority)
- d) Certificate of Origin
- i) EUR 1 (for European Economic Community countries from KETA)
- ii) Certificate of Origin for Middle East countries from Kenya National Chamber of Commerce

iii) GSP (for all other countries)

e) Export Certificate

f) Phytosanitary Certificate

STEP 1 Shipper to submit Invoice to produce inspectors for inspection of produce.

STEP 2 HCDA officer to vet prices, weights declared by the shipper and issue export certificate which is endorsed by produce inspectors.

STEP 3 Shipper sends the documents to his/her agent (here the responsibility of the shipper ends), the agent prepares other documents, i.e. Airway Bill and Customs entry (C.29),

STEP 4 Produce is weighed by Kenya Airways Handling Services Ltd. and issue docket (correct weights of produce).

STEP 5 All the documents (invoice, CD3, Appendix 3, Certificate of Origin, Airway Bill and Docket) are verified by HCDA for final approval

STEP 6 Agent sends documents to customs officer for verification.

STEP 7 From customs, agent sends documents to Kenya Air freight Handling Ltd. who then passes the documents to the airlines.

Terms of access

Terms of access refer to the conditions that apply to the importation of goods manufactured in a foreign country. The major instruments covered by this include import duties, import restrictions or quotas, foreign exchange regulations and preference arrangements.

Tariff systems

Tariff systems provide either a single rate of duty for each item applicable to all countries, or two or more rates, applicable to different countries or groups of countries. Tariffs are usually grouped into two classifications:

Single column tariff: A simple schedule of duties in which the rate applies to imports from all countries on the same basis.

Two column tariff: The initial single column of duties is supplemented by a second column of "conventional" duties, which shows reduced rates agreed through tariff negotiations with other countries. The second column is supplied to all countries enjoying "most favoured nation" status within the framework of GATT. Signatories to GATT, with some exceptions, apply the most favourable tariff to products.

Preferential tariff: A reduced tariff rate applied to imports from certain countries. GATT prohibits preferential tariffs except historical preference schemes like the Commonwealth, those part of a formal economic integration treaty like a free trade area and preference to companies of a developing country importing into a developed country.

Types of Duties: Customs duties are of two different types - ad valorem or specific amounts per unit, or a combination of these.

i) Ad valorem - This duty is expressed as a percentage of the value of goods. As definitions of customs value vary from country to country it is best to secure valuation policy information first.

A uniform basis for the valuation of goods for customs purposes was elaborated by the Customs Cooperation Council in Brussels and was adopted in 1953 (the Brussels Nomenclature came out of this). In this

case the customs value is landed GIF cost at the port of entry. This cost should reflect the arm's length price of the goods at the time the duty becomes payable.

ii) Specific duties - Expressed as a specific amount of currency per unit of weight, volume, length, or number of other units of measurement, e.g. 25 cents per kg. Usually specific duties are expressed in the currency of the importing country.

iii) Alternative duties - In this case both ad valorem and specific duties are set out in the customs tariff for a given product. Normally, the applicable rate is the one that yields the higher amount of duty, although there are cases where the lower is specified.

iv) Compound or mixed duties - These duties provide for specific plus ad valorem rates to be levied on the same articles.

v) Antidumping duties - Applied if injury occurs to domestic producers. These are special additional import charges designed to cover the difference between the export price and the "normal" price, which usually refers to the price paid by customers in the exporting countries.

vi) Countervailing duties - Additional duties levied to offset subsidies granted in the exporting country.

Other import charges: These include variable import charges, temporary import surcharges and compensatory import taxes

i) Variable import charges - Can be used to raise imported product prices to the domestic price level.

ii) Temporary import surcharges - Used as a local industry protection measure and in response to balance of payments deficits.

iii) Compensating import taxes - In theory these taxes correspond with various internal taxes, such as value added taxes and sales taxes. According to GATT such "border tax adjustments must not amount to additional protection for domestic producers or to a subsidy for exports". This can lead to great inequities.

Non tariff barriers

Non tariff barriers are measures, public or private, that cause internationally traded goods and services to be allocated in such a way as to reduce potential real world income (the attainable level when resources are allocated in the most economically efficient manner). They virtually prevent sales in a foreign market.

i) Quotas and trade control - Specific limits and controls, and once the quota is filled the price mechanism is not allowed to operate. Some countries, for example Zimbabwe, operate state trading.

ii) Discriminatory government and private procurement policies - "Buy British" policies aimed at restricting foreign supply.

iii) Selective monetary controls and discriminatory exchange rate policies - Act distortively on import duties and export subsidies. Some countries require an import deposit, thus in effect raising the price of foreign goods.

iv) Restrictive administrative and technical regulations - Include antidumping, size regulations, safety and health. The EU, for example

has very strict hygiene measures for imports of horticultural products.

Tariff classification

Before World War II specific duties were widely used and the tariffs of many countries were very complex. Tariff administration has been made more simple by the Brussels Nomenclature (BTN), worked out by an international committee of experts under the sponsorship of the Customs Cooperation Council, which in 1955 produced a convention that entered into force in 1959. These rules now apply to most GATT countries.

The BTN groups articles mainly according to the materials from which they are made. With many new products appearing the task of classifying becomes more difficult. Exporters should seek the most favourable classification for their products to minimise the duty levied. Sometimes products can be reclassified to get an advantageous rate. Difficulties of classification raise serious questions about the accuracy of data in international trade patterns. In using data on trade, the numbers may often reflect hasty and arbitrary classification which distorts the true picture of the trade flows. This often explains the discrepancies in import and export figures of the same commodity between two countries.

International trade

The export transaction is founded on a contract of international sale of goods with the special characteristic that it is entwined with other contracts, a thing that differentiates the international sale from the local sale. These connected contracts are the contract of carriage by sea or air under which goods are exported and the contract of insurance by which the goods are insured. In many export transactions, delivery of the shipping documents amounts to performance of the contract of sale. These shipping documents consist normally of the bill of lading, the marine insurance policy and the invoice. The position becomes more involved when payment is made under a banker's documentary credit because this common method of payment requires the addition of two other contracts to the export transaction viz: the contract of the bank with the buyer and seller respectively.

Export contracts

A contract is a general agreement between a seller making an offer and a buyer making an acceptance. The acceptance should be unqualified and any variation is regarded as a repudiation of the contract.

The export contract should be very explicit regarding goods and specifications, price, mode of payment, storage, packing, delivery schedule and so on. Normally the contract is sent with a pro forma invoice by airmail.

Although contracts may be oral or partly in writing and partly by word of mouth, it is always safer for the exporter to produce his terms of selling in writing and obtain the signatures of his buyer or authorised representative.

The essential elements of a contract of sale should include the following:

- a) Names and addresses of the parties
- b) Product, standards (quality) and specifications
- c) Inspection of products
- d) Packaging, labelling and marking requirements
- e) Marine insurance

- f) Port of shipment, destination and delivery schedule
- g) Method of payment
- h) Price FOB, CIF, C & F etc. in international currency or currency asked for by the buyer and,
- i) Settlement of disputes including arbitration clause.

If the buyer is satisfied with the terms set out in the contract and the pro forma, the exporter can then get an order with duplicate copy of the contract, detailing payment arrangement and other details and an indication that a letter of credit (LC) has been opened in favour of the exporter. Details of documents required will also be indicated in the export order. The following must happen:

- a) Acknowledgment - exporter must acknowledge receipt of the order indicating that confirmation follows
- b) Scrutiny - contents of the order in respect of product, sizes, specifications etc. as per quotation must be examined in terms of elements of contract conveyed by the exporter to his buyer. Qualities/volume should be examined and ascertained in respect of capability to supply within the stipulated time.

Delivery schedule: All efforts should be made to ensure adherence to delivery schedule as this would affect the requirements of the LC. The export order should indicate whether part shipment is permissible or not.

Terms of payment

This is very important: If payment is to be by LC the following should be borne in mind when examining the LC:

- a) confirmation of the LC
- b) documents stipulated in the LC will be submitted by the exporter's bank
- c) draft to be drawn against the LC is for the period set out in terms of the contract, "sight draft" is payment by the recipient or "usance draft" if credit has been allowed in the contract
- d) the credit validity period allowed in the LC
- e) payment against the LC is permissible according to requirements of foreign exchange control regulations.

Documents

Since the LC indicates the documents required along with the bill of exchange, the exporters should look for availability of the documents called for by the importer and particularly:

- a) Commercial customs consular/legalised invoice. The Buyer should endeavour to send a special form of invoice required by him.
- b) Kind of Bill of Lading (usually "clean on board") and the number of copies required by him along with the bill of exchange and non-negotiable copies to be sent to the buyer.
- c) Certificate of origin

d) Packing list - number of copies required

e) Marine Insurance Policy whether in FOB or CIF contract is to be effected by the exporter on behalf of the importer. The name of the company from which the insurance contract is to be obtained should also be mentioned.

Pre-shipment inspection

To be carried out by an appointed body or any other agency.

Packing, labelling and marking requirements

Special or usual activities for example, colour contents, language, packing etc.

Confirmation

If the exporter is satisfied with all of the above, then he must send his confirmation of the export order to the buyer. No special form of confirmation is needed as any letter giving details of order and indicating clearly terms and conditions would be sufficient.

If dissatisfied, the exporter should write to the importer to seek for clarification and necessary corrections. If the export transaction presents itself to the businessman as a natural and indivisible whole and he is apt to pay little attention to its constituent parts, like the motorist who thinks of the components of his car only when he notices a fault in them.

Special trade terms in export sales

Export transactions based on the contract of sale usually have terms which are not customary in the local trade. The most common are the FOB and CIF clauses. Other clauses are ex-works, or ex-warehouse or ex-store, the FOR, FOT, the COF, ex-ship, ex-quay and arrival.

Ex-works or ex-warehouse or ex-store (where the goods are situated)

This is an arrangement which is most favourable to the seller who desires to conduct export trade as closely as possible on the lines of a home market sale. The clause means that the overseas buyer or his agent must collect the goods at the place where the seller works or where his factory, warehouse or store is situated. The seller must provide goods of the contract description and place them at the agreed collection point. Notice should be given to the buyer that the goods are ready for collection.

Free on rail or free on truck (FOR/FOT)

Here, the seller has little to do with the actual exportation of the goods and many overseas risks. But unlike the above, the goods are not collected at the seller's doorstep but have to be delivered by him into the custody of the railway or transport authority at the agreed point.

The seller, under an FOR or FOT contract, has normally to procure the railway wagon or other means of transport. The seller should give immediate notice to the buyer of the loading or delivery to enable him to make a claim on the carrier within the time prescribed, in the event of loss.

Free alongside ship (FAS)

This involves certain elements which are absent in a sale on the home market. The seller will have performed his obligations when the goods are carried alongside the ship so that they can be placed on board. The actual loading of the goods is the

responsibility of the buyer.

Under the FAS contract, the duty to nominate an effective ship falls on the buyer.

Once the seller has placed the goods alongside a ship in the customary way and at the agreed time, all subsequent expenses and costs are to be met by the buyer.

Free on board; named port of shipment (FOB)

Here, the seller assumes further responsibilities. He undertakes to place the goods on board a named ship at a named port and berthing place. All charges to, and including the delivery of the goods over the ship's rail, have to be borne by the seller while the buyer has to pay all subsequent charges such as the stowage of the goods on board ship, freight, marine insurance as well as unloading charges, import duties, consular fees and other incidental charges due on the arrival of the consignment in the port of destination.

This transaction differs markedly from an ordinary sale in the home market where no dealings in a port have to be carried out and yet it does not display the complexion which is a true mark of the export transaction. There are two types of FOB contract, the strict or classical type and the one with additional services. Under the strict FOB contract the arrangements for shipment and, if he so wishes, for insurance are made by the buyer direct. Under an FOB contract the duty to name an effective ship falls on the buyer. Failure to name such a ship will make the buyer liable to an action for damages for non-acceptance. This is shown in the following case:

Case 12.2 Federspiel And Co. Vs Charles Twigg and Co. Ltd.

In Carles Federspiel & Co. vs Charles Twigg & Co. Ltd., (1957), a company in Costa Rica bought from an English company 85 bicycles FOB British port and paid the purchase price in advance. The bicycles were packed into cases which were marked with the buyer name and registered for shipment in a named ship that was to load them at Liverpool. The cases containing the bicycles had not yet been sent to the port. A receiver and manager was appointed for the sellers. It was held that the property in the bicycle had not yet passed to the buyers so that the receiver could get them.

In an FOB contract with additional services, the parties agree that the arrangements for the carriage by sea and insurance shall be made by the seller but for, and on behalf of, the buyer. In both types of FOB contract the cost of putting the goods on board ship is borne by the seller. Delivery is complete when the goods are put on board ship. The risk of accidental loss under the Sale of Goods Act passes to the buyer when the seller has placed the goods safely on board ship. The seller must give notice of shipment to the buyer so as to enable him to insure. If the seller omits to do this, the goods shall be at his risk. This can be seen in the following case:

CASE 12.3 Groom vs Barber (1915)

In Groom vs Barber (1915), Barber sold Groom 100 bales of cloth on CIF terms. Barber shipped the goods, insuring them under a policy which did not cover war risks. There was no custom of trade that the seller should insure against war risks. Their ship carrying the cargo was sunk by a German cruiser. It was held that, Groom was bound to pay the price on tender of the shipping documents.

Cost Insurance Freight (CIF) (named port of destination)

This is the most common export clause. A CIF contract is not a sale of the goods themselves but a sale of the documents of title. Thus, a buyer is under an obligation to pay against the shipping documents even if the goods do not arrive. The right of the buyer where the goods have not arrived is to sue the contract of carriage or insurance which is assigned to him by the seller under the contract of sale. However, if the goods are lost from a peril not covered by the ordinary policy of insurance

current in the trade, the buyer must nevertheless pay the full price on delivery of the documents. This can be seen in the following case:

Case 12.4 The Elafi (1982)

In The Elafi (1982), Swedish buyers bought 6,000 tonnes of copra under four identical contracts which provided for delivery CIF Karlshamn, Sweden. The goods were carried in the Elafi which carried altogether 22,000 tonnes of copra in bulk, 16,000 tonnes having been sold to other buyers. The 16,000 tonnes sold to the other buyers were located in intermediate ports of Rotterdam and Hamburg so that only the quantity bought by the Swedish buyers remained on board. The Elafi: Part of the cargo purchased by them was damaged on discharge in Sweden by the negligence of the shipowners. The buyers sued the shipowners in the tort of negligence. The shipowners claimed that at the time of the damage to the cargo, the buyers had no title To and therefore could not sue in negligence. It was held that:

- i) the goods became ascertained when discharged was complete in Hamburg because the buyers could then say all the copra on board was destined to them; and,
- ii) property hand passed on the goods becoming ascertained in Hamburg, because in a CIF contract the parties intend that either the property shall pass upon the shipping documents being transferred to the buyer or else, if the goods were not then ascertained, that property shall pass when they later become ascertained. The claim of the Swedish against the shipowners was successful.

CASE 12.5 Kwei Tek Chao Vs British Traders And Shippers Ltd., (1954

In Kwei Tek Chao vs British Traders and Shippers Ltd., (1954) British Traders and Shippers Ltd. sold goods to Kwei Tek Chao who were merchants, the shipment to be made by October 31st. The goods were shipped on November 3rd. The date of shipment shown on the bill of lading was forged to show a shipment in October, but British Traders were ignorant of it and not party to the forgery. All the same they took delivery of the goods, but as the market had fallen, were unable to sell the goods. It was held that:

- i) the bill of lading though forged, was not a nullity as the forgery did not go to the root of the contract; and,
- ii) Kwei Tek Chao although they had not rejected the documents still had a right to reject the goods and could recover the difference between the contract price and the market price.

However, if the buyer accepts the documents knowing that they are not in order he is estopped from later trying to reject them. (See following case).

The property under a CIF contract passes when the documents are taken up by the buyer but what the buyer obtains, when the title under the document is given to him, is the property in the goods, subject to the condition the goods reverts if upon examination he finds them not to be in accordance with the contract. If, however, the goods are not ascertained at the time the documents are taken up, no property in the goods will pass until the goods are ascertained. An example of this can be seen in the above case.

The duties of the seller under CIF contract are: to ship at the port of shipment goods of the description contained in the contract; to procure a contract of carriage by sea, under which the goods will be delivered at the destination contemplated by the contract; to arrange a contract of insurance on the terms current in the trade for the benefit of the buyer; to make out an invoice for the goods and to tender within a reasonable time after shipment the bill of lading, the policy of certificate of insurance and the invoice to the buyer so that the buyer may obtain delivery of the goods, if they arrive, or recover for their loss if they are lost on the voyage. The bill of lading tendered must correctly state the date of shipment otherwise the buyer can reject the goods. Under a CIF contract the buyer has the right to reject the documents and also a right to reject the goods. These two rights are quite distinct. This distinction can be seen in the following case:

Case 12.6 Panchand Freres S.A. vs Etablissement General Grain Co., (1970)

In Panchand Freres S.A. vs Etablissement General Grain Co., (1970), Panchand Freres sold a quantity of Brazilian yellow maize to Etablissement General Grain Co. The contract was CIF Antwerp and provided that shipment had to take place from Brazilian ports "during the period of June/July 1965" and the "bill of lading to be considered proof of date of shipment in the absence of evidence to the contrary". The goods were in fact shipped on August 11th and 12th, 1965, but the bill of lading was out dated and falsely gave as the date of shipment July 31st, 1965. However, a certificate of shipment issued by a superintendent company in Brazil stated as date of shipment August 10th to 12th, 1965, and this certificate was tendered together with the bill of lading. It was held that: by taking up the documents and paying for them, the buyers were aware that the goods were shipped later than provided in the contract and were estopped from complaining of the late shipment or the defect of the bill of lading.

CASE 12.7 Comptoir d'Achat vs Luis de Ridder (1949)

In Comptoir d'Achat vs Luis de Ridder (1949), a Belgian company bought 500 tonnes of la plate rye from an Argentine company. The terms were CIF Antwerp. The goods were part of a larger consignment and the documents tendered to the buyer included a delivery order addressed to the seller's agents in Antwerp instructing them to release 500 tonnes to the buyer. The buyers paid against the documents but the ship carrying the goods, the S.S. Juliana, was diverted to Lisbon because Antwerp had fallen into enemy hands. At Lisbon, the goods were sold cheaply. This was one of some 900 transactions concluded by the parties before on similar terms. It was held that, the contract, despite it being called a CIF contract, was an arrival contract because the delivery order unlike a bill of lading, passed neither possession nor property to the buyers but was merely a note from an agent of the sellers to another. Since, owing to the non arrival of the goods in Antwerp, the consideration had wholly failed, the buyers were entitled to recover the whole purchase price paid by them from the seller.

Contracts Expressed to be CIF but not True CIF Contracts

The strict rules discussed above do not apply to other contracts, in particular arrival contracts and other contracts which are not true CIF contracts, though they may be described as CIF contracts by the parties. Thus, the terminology used by the parties is not conclusive evidence as to the nature of the export contract. The following case evidences this.

Case 12.8 Urquhart Lindsay & Co. vs Eastern Bank, (1922)

In Urquhart Lindsay & Co. vs Eastern Bank, (1922), Urquhart sold machinery to a buyer in Calcutta to be delivered by instalments, payment to be paid for each shipment as it took place by means of a confirmed credit with the buyer's bank in England. The buyer's bank told Urquhart that a "confirmed irrevocable credit" was open in his favour. After two shipments had been made and paid for, the bank on the buyer's instructions refused Urquhart's bill of exchange. It was held that the bank was liable in damages.

Apart from the above situation where a bill of lading is replaced by a delivery order, a contract expressed to be a CIF one will not be truly such also where delivery of the goods is expressed to constitute performance of the contract.

Accepted variants of the CIF contract

The following are some of the variants of the CIF contract which are reconcilable with the legal nature of a true CIF contract.

CIF and C; CIF and E; CIF and C and I: CIF AND C STANDS FOR COST, insurance, freight and commission, E stands for exchange and I for interest. The commission is the export merchant's commission which he charges when acting as buying agent for the overseas buyer. The expression "exchange" is ambiguous; it is sometimes said to refer to the banker's commission or charge, while sometimes it

refers to exchange fluctuations. In the former case it denotes that the banker's charges are included in the calculation, whereas in the latter it means that the purchase price is not affected by the subsequent rise or fall of the stipulated currency of payment against another currency. It is thought that the former interpretation is more common as currency fluctuation arrangements are most explicitly made. The clause CIF and C and I is used when goods are exported to distant places where some time elapses before the bill drawn on the buyer abroad is settled. When the seller negotiates the bill to his bank the latter charges him commission and interest until payment has been received on the draft in the seller's country, and the seller by adding in his contract of export the letter "I" to the clause indicates to the buyer that the quoted price includes the bank's interest and commission.

Date of arrival of goods is mere determinate for payment of price: The parties sometimes agree on CIF terms adding "payment on arrival of goods" or "payment 'x' days after arrival of goods". This clause is ambiguous and its meaning can be ascertained from the intention of the parties. As a general rule, these words refer to the time at which payment has to be made. If the goods do not arrive, payment shall be made on tender of the documents at the time at which the goods would normally have arrived.

C and F (Named Port of Destination)

This stands for cost and freight. The seller is responsible for procuring the contract of carriage of goods but not the contract of insurance which is to be effected by the buyer. However, the seller must promptly inform the buyer of the shipping of the goods to enable him to insure the goods. The C and F clause is not frequently used by export merchants except in the case of some countries, which for political reasons, or due to lack of foreign exchange, require their importers to insure at home rather than buy CIF.

Arrival of ex-ship (Named Ship and Named Port of Arrival): Where this clause is used, the goods must arrive at the place of destination. It is not sufficient that documents evidencing shipment of the goods to that destination are made available to the buyer. When examining whether a particular contract is a CIF contract or an arrival contract, attention must be paid to the situation of the parties; the terms used by the parties are not conclusive. (See previous case 12.8 Comptoir d'Achat vs Luis de Ridder).

Export documentation

In internal/inland trade, the commercial parties to a sales contract agree on a price based on the buyer taking over the goods at the seller's or supplier's warehouse, or on delivery by the seller to the buyer's warehouse, or delivery by the seller to a specified rail or road carrier. This is because it is simple for either buyer or seller to arrange to pay for all formalities involving the movement and insurance of the goods from one place to another in the same country.

In international trade, the position is a little complicated. There are likely to be three separate contracts of carriage of the goods, i.e. from the seller's or supplier's warehouse to a place within the seller's country, from which there will be an international movement of the goods to a place of arrival within the buyer's country, with a possible internal carriage within the buyer's country to his warehouse.

Basic export documents

Below is a list of basic documents used in export trade. These have been covered in detail in other sectors of this text.

a)	Invitation to quote
b)	Quote
c)	Pro forma Invoice
d)	Order confirmation/acknowledgement
e)	Bill of lading/short form bill of lading
f)	Airway bill
g)	Marine (other) insurance policy
h)	Commercial invoice
i)	Consular invoice
j)	Certified invoice
k)	Certificate of origin
l)	Packing list/weight note
m)	Specification sheet
n)	Manufacturer's analysis certificate
o)	Health, sanitary, phytosanitary, veterinary certificates
p)	Quality inspection certificate/certificate of value
q)	Independent third party inspection certificate
r)	Dispatch advice note
s)	Dangerous goods declaration
t)	Shipping or export consignment notes
u)	Documentary credit of payment drafts
v)	Export licences
w)	Import licences
x)	Exporter's commission advice to agent
y)	Customs and Excise export entry forms
z)	EU Movement documents EUR 1 Form
a1)	Other specifically requested documents

Not all of these will be relevant depending on whether the exporter is from a developed or less developed country.

Note:

A great number of exporters find it more convenient to control the volume and variety of paper work and related matters by designing a file folder that has printed on the covers the entire control procedure covering documentation, production of goods, payment, shipping instructions and so on. Each separate transaction is then allocated to a numbered filed folder.

The documents are either required by the importer to satisfy the country's trade control authorities or to enable a documentary credit transaction to be implemented. Trade control authorities want to ensure that each document controls the import of a good/commodity for sanitary/veterinary reasons, or to ensure no plant disease likely to affect the local seeds is imported from another country. The importer also wants to ensure that the exporter fulfills these requirements under documentary letter of credit operations in order for payment to be effected.

Commercial documents

Of the documents described earlier, this section will single out some and describe them in detail.

Pro forma invoice

This is a form of quotation by the seller to a potential buyer. It is the same as Commercial Invoice except for the words "Pro forma Invoice" which appear on it. It may be an invitation to the buyer to place a firm order and is often required by him so that the authorities of the importer's country will grant him an import licence and/or foreign exchange permit. The pro forma invoice normally shows the terms of trade and price so that once the buyer has accepted the order there is a firm contract to be settled as stipulated in the pro forma. Details from the accepted pro forma must be transposed identically to the commercial invoice that goods are in accordance with the pro forma invoice. No pro forma invoices are used in settlements:

- in advance
- on consignment
- subject to tender
- after an invitation to tender has been accepted by the seller.

Commercial invoice

The following details must appear on a commercial invoice used in international trade:

- Names and addresses of buyer and seller and date
- Complete description of goods. If payment is to be obtained by means of documentary letter of credit, this description of goods must exactly match the details in the documentary credit
- Unit prices where applicable and final price against shipping terms
- Terms of settlement e.g. under documentary credit or 30 days sight Documents against Acceptance
- Shipping marks and numbers
- Weight and quantity of goods
- Name of vessel if known or applicable.

Sometimes it is necessary to show to the customs authorities in the buyer's country:

- Seller's signature
- Origin of goods
- Ports of loading and discharge or places of taking in charge and delivery
- Details of freight and insurance charges specified separately where applicable.

Certified invoice

A certified invoice may be an ordinary signed commercial invoice specially certifying:

- a) That the goods are in accordance with a specific contract or pro forma
- b) That the goods are, or are not, of a specific country of origin
- c) Any statement required by the buyer from the seller.

There are also formal certified invoices which when submitted to the importing authorities will provide them with the necessary evidence to pass the goods through customs with a lower import duty or none at all. Combined certificates of value and

origin (CVO) are used between members of the Commonwealth and special invoices for the other major trade areas such as the EU. All certified invoices must be signed and in case of combined certificates of value and origin they should be signed by a witness as well.

Weight note

This certificate may be issued by the seller or often by a third party - it indicates weight of goods, which should tally with that shown on all the other documents. Weighbridge tickets are sometimes produced for road or rail shipments. Banks will accept superimposed declaration of weight on shipping documents, unless credit calls for a separate or independent document.

Packing list and specification

These documents set out details of the packing of the goods. These are required by the customs authorities to enable them to make spot checks or more thorough checks on the contents of any particularly package. The packing list has no details of cost/price of the goods; the specification does have these details.

Manufacturers analysis certificate

The certificate states the ingredients and proportions revealed by an analysis of chemicals, drugs etc.

Third party certificate of inspection

This is a certificate declaring the result of an examination of the goods by a recognised independent inspection body. In order to protect himself from paying when substandard or worthless goods have been shipped an importer can call for an independent check or examination of goods before they are despatched.

This is important for the buyer as banks' liabilities and responsibilities under documentary credit are limited to documents and not goods represented by the documents. The usual independent body which serves buyers/sellers is the Société Generale de Surveillance.

Official documents

These are legion. This section looks at the following few official documents only for example purposes,

- a) EURI form
- b) TzL form
- c) Consular invoice
- d) Legalised invoice
- e) Combined invoice and Certificate of Origin
- f) Chamber of Commerce Certificate of Origin
- g) Blacklist Certificate
- h) Veterinary Certificate.

EC documents EURI and TzL

EURI form is used in respect of preferential exports from an EU country to a non EU country. The TzL is used for trade between EU member states, where the goods are being transported directly between member states and without passing through the territory of a non member country.

Consular invoice

Importing authorities of several countries require consular invoices to be produced

before goods may be cleared through customs. These invoices are normally obtained by the exporter from the Embassy of the importing country and are submitted to the Embassy for stamping at a charge. Sometimes a Chamber of Commerce is required to certify on the Consular Invoice that the origin of the goods is as stated. This mainly happens in the South American countries. The selling price is mainly examined in the light of current market price to ensure that there is no "dumping" or that importers are not syphoning money overseas or that the correct basis for levying import duty can be determined by the Customs Authorities.

Legalised invoice

Some countries require that commercial invoices should be legalised by their own embassy or consulate in the seller's country. Sellers produce their own invoices and have them stamped (visaed) by the buyer's embassy. This is normally required in the Middle East countries.

Certificates of origin

These constitute signed documents evidencing origin of the goods and are normally used by the importer's country to determine the tariff rates. They should contain the description of goods and signature and seal of the Chamber of Commerce.

Blacklist certificate

Countries at war or with badly strained political relations may require evidence that:

- a) The origin of the goods is not that of a particular country
- b) That the parties involved (manufacturer, bank, insurance company, shipping line etc.) are not blacklisted or,
- c) That the ship or aircraft will not call at ports in such a country unless forced to do so.

Health, veterinary and sanitary certificates

Sometimes these are required for official purposes in the purchase of foodstuffs, hides and skins, livestock and in the use of packing materials.

Insurance documents

The following are insurance documents required in international trade:

- a) Letter of insurance
- b) Insurance company's open cover certificate
- c) Lloyds' open cover insurance
- d) Insurance policy.

Letter of insurance

It is normally issued by a broker to provide notice that an insurance has been placed pending the production of a policy or a certificate. Sometimes this takes the form of a cover note. The above documents do not contain details of the insurance being effected and therefore are not considered satisfactory by banks which normally require evidence of an insurance contract in documents required under a documentary credit.

Broker's certificates, and cover notes are issued by a third party and not the insurer so that in the event of any claim, it would be made against the broker.

Insurance certificates

These are issued by insurance companies to embrace either open covers or floating policies. The systems of open cover and floating policies are similar in that:

- a) Once the system has been arranged, the insured party is covered for all his shipments on the terms and for the risks agreed. The insured will declare to the insurance company the value and details of each shipment and will receive a pre-printed insurance certificate made valid and the document will show the risks covered and be presigned by the insurer.
- b) Under English Law, no action will be obtained on a contract of insurance evidenced solely by an insurance certificate. So, any action to be taken against insurers can only be on production of a policy to be sued on.

Transport documents

Airway bill

The IATA airway bill (sometimes called an air consignment note or air freight note) is often issued in a set of 12 of which 3 are commercially important, the remainder being copies for airline purposes. The three important documents are:

- a) for the issuing carrier
- b) for the consignee
- c) for the shipper.

The waybill is a receipt only and not a document of title, and the goods are delivered to the named consignee without further formality once customs clearance has been obtained. If the third original document is in the hands of the shipper this can be surrendered to the airline before delivery is made to the consignee.

There might be an arrangement for payment whereby the bank might wish to have a lien over the goods until payment is effected by the importer. The goods will, therefore, be consigned to a correspondent bank (provided that the correspondent bank is agreeable to this) and in such a case the bank will release the goods or documents as instructed. The document should bear the airline stamp with date of despatch and flight number, and be signed on behalf of the airline.

Combined transport bill of lading

As a natural sequel to unitisation of cargo it has become increasingly customary for the "unit load", especially where the cargo has been packed in a container of 20 feet in length, to be shipped on one contract of carriage from a "place of taking in charge" to a "place of delivery". This is known as a "combined" or "multi-modal" transport, and is a substitute for the traditional port-to-port bill of lading. Its name is combined bill of lading "combined transport bill of lading" is used. When such a document is required under a documentary credit it does not make sense for such credit to specify ports of loading and discharge, or to prohibit transshipment as the essentials are the places of taking in charge and delivery.

House bill of lading

These documents are issued by freight forwarders for their own services. This exhibit is the form recommended by The Institute of Freight Forwarders Limited for trading members of the Institute and bears the IFF Standard Trading Conditions.

Under the Carriage of Goods by Sea Act 1971, any sea waybills, data freight receipts, house bills, forwarding agents' receipts or similar non-negotiable documents, not being bills of lading or title documents, are nonetheless, subject to

the Hague Rules relating to bills of lading where the non-negotiable documents provide evidence that they relate to contracts of carriage of goods by sea.

Rail consignment note

With the growth of freight liner traffic the volume of goods being exported by rail through to final continental destination is increasing. Consequently, the carrier's receipt, or duplicate copy, frequently accompanies the other documents. Goods will be released to the consignee, upon application and normal proof of identity, by the rail authorities at destination or by delivery direct. Control over the goods would be arranged in the same way as for an air consignment. The rail consignment note should bear the stamp of the station of departure and the date of departure.

Road waybill (CMR)

The CMR (Convention Merchandises Routiers) consignment note is an internationally approved and recognised non-negotiable transport document used when goods are travelling by road through or to countries which are parties to the CMR. The contracting countries are Austria, Belgium, Bulgaria, Czechoslovakia, Denmark, Finland, France (including overseas territories), Federal German Republic, German Democratic Republic, Gibraltar, Greece, Hungary, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, Switzerland, United Kingdom (including Northern Ireland) and Yugoslavia.

As well as its function as a receipt and delivery document, the note provides written evidence that goods are being carried under the terms of the CMR.

Bills of lading

This document is the receipt given by the shipping company to the shipper for goods accepted for carriage by sea. If in negotiable form it also conveys title to the goods and the goods will only be released by the shipping company at destination against surrender of a signed original of the bill of lading. Finally, the bill of lading evidences a contract of carriage.

Short form bills of lading

One of the three functions of a bill of lading is to provide evidence of the underlying contract of carriage by sea which comes into being with the reservation of space on board a ship. The shipping company's terms are usually given in full on the reverse, but with the short form bill this is not the case. The essence of the "short form" is the complete removal from the reverse of the bill of lading of the "small print" which gives details of the contract of carriage. Article 19(b) (ii) of the Uniform Customs and Practice for Documentary Credits, defines such short form bills of lading as "bills of lading issued by shipping companies or their agents which indicate some or all of the conditions of carriage by reference to a source or document other than the bill of lading". In a number of countries, including the UK, the use is being encouraged of a short form bill of lading common to a number of different shipping companies. This is not pre-printed with the name of the shipping company, so the "name of the carrier" has to be typed in with the other data relating to the specific shipment. This type of document is known as the "common short form bill of lading". Banks will accept such bills of lading when presented under documentary credits unless the credit specifies otherwise.

Bills of lading (Liner)

These are issued by shipping companies in respect of goods carried on regular line vessels with scheduled runs and reserved berths at destination. Such means of transport has possible advantages over tramp vessels which do not necessarily adhere to a very strict schedule and may make unscheduled calls at various ports on

the way to the ultimate destination. Shipping lines serving the same routes or destinations may form a conference, within which agreements are made over such matters as the terms and conditions of bills of lading, freight rates, and sometimes of sailing and use of berthing facilities.

Non-negotiable sea waybills

The processing of bills of lading is slow since they may have to pass through several hands. Therefore, these documents may not be received by the consignee before arrival of the vessel. The non-negotiable sea waybill was developed to avoid delay in handling of goods at destination, and has been adopted by a number of shipping lines as an alternative to bills of lading. It resembles the air waybill, as the goods are delivered to the named consignee without any need to hand over the waybill.

Mate's receipts

Rarely seen in trade circles, and rightly so, for this is merely a receipt for goods shipped abroad. Not being a document of title, it should be exchanged for the set of bills of lading by the shipper at the offices of the shipping company.

Financial and financing documents

The financial documents, bills of exchange and promissory notes are listed below. A short description then follows:

- a) Bill of exchange drawn in foreign currency and payable at sight
- b) Bill of exchange drawn in sterling and payable at sight
- c) Bill of exchange accepted payable at 30 days' sight
- d) Promissory note
- e) Inspection and sampling order
- f) Delivery order
- g) Warehouse receipt
- h) Trust receipt.

Bills of exchange

The legal definition (Bills of Exchange Act 1882, Section 3) of a bill of exchange is an unconditional order in writing, addressed by one person (drawer) to another (drawee), signed by the person giving it (drawer), requiring the person to whom it is addressed (drawee) to pay on demand, or at a fixed or determinable future time, a certain sum in money to, or to the order of, a specified person (payee), or to bearer. The words in brackets do not appear in the Act, but have been inserted for clarity.

Bills of exchange are widely used in international trade, partly since they are convenient vehicles for collecting payment from traders abroad. Finance may be arranged in a number of ways using bills of exchange, both for the buyer (drawee) and for the seller (drawer). Bills of exchange which have been dishonoured may be used in their own right as the basis for legal action. After payment, the discharged bill of exchange is retained by the drawee as evidence of payment, in other words it becomes a receipt for the money. It is the practice in some European countries for banks to avail bills of exchange by adding the bank's name to the bill; this raises the status of the document as the availing bank has guaranteed payment at maturity.

Promissory notes

Whilst not bills of exchange, these are largely subject to the same rules and are used for a somewhat similar purpose, the settlement of indebtedness. Instead of being drawn like a bill of exchange by the person expecting to be paid, they are made by the person who owes the money, in favour of the beneficiary. A simple way of looking at a promissory note is to consider it an IOU. When due, it is presented for

payment by the holder, who may be the payee or someone to whom the promissory note has been negotiated.

Inspection and sampling order

When banks are protecting consignment stocks for foreign exporters to, say, the UK, or if they are lending to a UK importer against a pledge of goods, the goods are usually warehoused in the bank's name pending sale to buyers. Prospective buyers frequently need to inspect and sometimes sample the goods before buying them, and it is necessary to be able to authorise a warehouse to permit this to take place. Assuming that the overseas seller or UK importer authorises sampling and/or inspection, a bank may issue such an order on a warehouse and hand it to the prospective buyer.

Delivery order

This is an order on a warehouse instructing it to deliver goods to the bearer or a party named in the order. Banks issue such orders when goods stored in their name are to be delivered to a buyer or are to be reshipped and have to leave a warehouse.

Warehouse receipt

This is a receipt for goods issued by a warehouse. The document is not negotiable and no rights in the goods can be transferred under it. Delivery orders may be issued against the receipt for the goods which relate to it.

Trust receipt

When a bank wishes to release documents of title, or the goods themselves, to a customer of undoubted integrity, whilst still retaining its security rights in those goods and/or the proceeds of their sale, it may obtain a completed trust receipt from its customer to whom a loan has been made. This is an acknowledgement of the pledge of the goods to the bank and an undertaking of the customer to take the documents as trustees for the bank and to:

- a) arrange for goods to be warehoused in the bank's name, or
- b) arrange for processing of the goods and their return to the warehouse in the bank's name, or
- c) arrange for sale of the goods and to pay all sale proceeds without deduction to the bank immediately on receipt or within a short, stated period of time.

Export financing

There are various methods used in the international sale of goods to pay the purchase price. These are as follows:

Drafts covering exports

These may be on sight basis for immediate payment or drawn to be accepted for payment 30, 60 or 90 days after sight. Drafts directed to a bank for collection are accompanied by shipping documents consisting of a full set of bills of lading in negotiable form, airway bills of lading, or parcel post receipt, together with insurance certificates, commercial invoices, consular invoices and any other documents that may be required in the country of destination.

Sales against cost advances

These are used where credit is doubtful, exchange restrictions difficult, or unusual delays may be accepted. They are very little used today.

Sales on a consignment basis

No tangible obligation is created by consignment sales. In countries with free port or free trade zones, it can be arranged to have consigned merchandise placed under bonded warehouse control in the name of a foreign bank. Sales can then be arranged by the selling agent and arrangements made to release partial lots out of the consigned stock against regular payment terms. The merchandise is not cleared through customs until after the sale has been completed.

The two most common methods are payment under a collection agreement and payment under a letter of credit, also called a documentary credit. In both cases, banks are used as intermediaries and the shipping documents are used as collateral security for the banks.

In the case of a collection agreement the bank in the buyer's country is squarely responsible for effecting payment, whereas in the case of a letter of credit this responsibility falls on the bank in the country of the seller.

Usually, in international sales, the seller draws a bill of exchange either on the buyer or on a bank. This bill is usually payable a certain number of days after sight, e.g. 90 days after sight.

Collection arrangements

Where a collection arrangement is organised the seller hands the shipping documents including the bill of lading to his own bank, the remitting bank, which passes them on to a bank at the buyer's place, the collecting bank. The collecting bank then presents the bill of exchange to the buyer and requests him to pay or to accept the bill. When the buyer has complied, the collecting bank releases the shipping documents to the buyer, who is then able to receive the original bill of lading that enables him to obtain the goods from the carrier on arrival of the ship. The collecting bank is liable to the seller if it releases the shipping documents to the buyer without having received finance from him.

Letters of credit

These are of particular importance. A letter of credit arrangement will be agreed upon in the contract of sale. The buyer instructs a bank in his own country (the issuing bank) to open a credit with a bank in the seller's country (the advising bank) in favour of the seller, specifying the documents which the seller has to deliver to the bank for him to receive payment.

If the correct documents are tendered by the seller during the currency of the letter of credit arrangement, the advising bank pays him the purchase price or accepts his bill of exchange drawn on it, or negotiates his bill of exchange, which is drawn on the buyer. Whichever method used is pre-arranged between the seller and the buyer.

Types of letters of credit

Letters of credit can be revocable or irrevocable, confirmed or unconfirmed. Whether the credit is revocable or irrevocable depends on the commitment of the issuing bank. Whether it is confirmed or unconfirmed depends on the commitment of the advising bank. These commitments are undertaken to the seller, who is the beneficiary under the credit.

There are four main types of letters of credit, namely, the revocable and unconfirmed letter of credit, the irrevocable and unconfirmed letter of credit, the irrevocable and

confirmed letter of credit, and the transferable letter of credit.

The revocable and unconfirmed letter of credit: Neither the issuing nor the advising bank is committed to the seller and as such the credit can be revoked at any time. This type of credit affords little security to the seller that he will receive the purchase price through a bank.

The irrevocable and unconfirmed letter of credit: In this case, the authority that the buyer gives to the issuing bank is not revocable and the issuing bank is obliged to pay the seller provided that he has tendered the correct document before the expiry of the credit. If the issuing bank defaults, the seller can sue them in the country where the bank has a seat. In some circumstances, the seller can sue the issuing bank in his own country if there is a branch office. From the point of view of the seller this type of letter of credit is a more valuable method of payment than a revocable and unconfirmed letter of credit.

The irrevocable and confirmed letter of credit: In this type of credit, the advising bank adds its own confirmation of the credit to the seller. Thus, the seller has the certainty that a bank in his own country will provide him the finance if the correct documents are tendered within the time stipulated. The confirmation constitutes a conditional debt of the banker, i.e. a debt subject to the condition precedent that the seller tenders the specified documents. A confirmed credit that has been notified cannot be cancelled by the bank on the buyer's instructions. See the following case:

Case 12.9 Equitable Trust Co. Of New York vs Dawson Partners Ltd. (1926)

Lord Summer said "There is no room for documents which are almost the same or which will do just as well". In this case, Dawson Partners Ltd. bought a quantity of vanilla beans from a seller in Batavia (Jakarta). They opened a credit in his favour through Equitable Trust Co, instructing them to provide finance on presentation of certain documents, including a certificate of experts. Equitable Trust Co. paid on tender of a certificate by a single expert. The seller was fraudulent and had shipped mainly rubbish but the expert who inspected the cargo failed to notice it. It was held that, Equitable Trust Co, had paid contrary to Dawson Partners' instructions and could not debit there.

Transferable:

The parties to a contract of sale may agree that the credit is transferable. The seller can use such credit to finance the supply transaction. The buyer opens the credit in favour of the seller and the seller (who in the supply transaction is the buyer) transfers the same credit to the supplier (who in the supply transaction is the seller). This type of credit is used when a person buys goods for immediate resale and wishes to use the proceeds of resale to pay the original seller.

The doctrine of strict compliance

Under this doctrine, the seller, to obtain payment, must tender documents which strictly comply with specifications by the buyer, otherwise the correspondent bank will refuse to honour the credit. The banks which operate the documentary credit act as agents for the buyer, who is the principal, and as such they should not pay against documents that are different from those specified. Lord Summer emphasised the importance of this requirement in Equitable Trust Co. of New York vs Dawson Partners Ltd. (1926).

Fraud in letter of credit transactions

Letters of credit have been described by an English judge as "the life-blood of commerce" and as such the defence of the bank that it will not honour the credit because fraud has occurred is accepted rarely and with reluctance. Such a fraud may occur if the shipment of the goods is fraudulent or if the bills of lading tendered under the credit are falsified or forged. Where there is a mere suspicion by the bank

that fraud has occurred, refusal to honour the credit is not accepted. Such refusal will only be accepted if it is proved to the satisfaction of the bank that the documents tendered are fraudulent and the seller is a party to the fraud or knew of it. The following case sets this out:

Case 12.10 United City Merchants (Investments) Ltd. vs Royal Bank Of Canada (1983).

In United City Merchants (Investments) Ltd. vs Royal Bank of Canada (1983), Glass Fibres and Equipment Ltd., a British company, sold glass fibre forming plant to a Peruvian company. Payment was arranged under an irrevocable letter of credit issued by a Peruvian bank and confirmed by the Royal Bank of Canada at its London branch. Shipment was to be made from London on or before December 15th, 1976, while the Credit was open until December 31st, 1976, shipment of the installation was made on board the American Accord on December 16th, i. e., out of shipping time. The bills of lading were altered and backdated to December 15th. This alteration was made fraudulently by an employee of the loading agents without the knowledge of the sellers of the transfers of the credit. It was held that, the confirming bank (The Royal Bank of Canada) should have honoured the credit of the document.

Conflict of law

Where a sale of goods transaction is made on the home market, little difficulty arises as problems that crop up are easily resolved by looking at the rules in The Sale of Goods Act (where the parties have not agreed otherwise). However, international sales pose the problem of conflict of law. The laws of the seller's country and those of the buyer's country may be different in some areas and the question arises as to where to sue and which law to apply.

In the absence of treaty provisions, rules of Private International Law are used to resolve these problems. It is normally advisable to sue in the country where the defaulting party resides or is incorporated and has an office and property, in the case of a company. This is so because the defendant can be more easily compelled to go to court and answer the case than when he is out of the jurisdiction of the court. On the type of law to apply, the proper law of the contract, i.e., the law of the contract country having the closest connection with the contract, is applied. Several factors are weighed in order to arrive at a conclusion as to which is the proper law of the contract, viz: the *lex loci contractus*, *lex situs*, *lex loci contractus*, the law of the country whose language, currency or flag (flying on the ship carrying the goods) is used.

Lex Focii

This means the law of the country in which the case is tried.

Lex Locii Solutions

This means the law of the country where the contract is performed.

Lex Situs

This means the law of the place where the property is situated.

Lex Loci Contracts

This means the law of the country where the contract is made.

Various treaties have been signed in order to unify the law relating to international sales, thereby avoiding the difficult task of weighing various factors in deciding on what law to apply. The two Hague conventions signed in 1964 are perhaps the most important of such international agreements. These are the Uniform Law on the formation of contracts for the International Sale of Goods, and the Uniform Law on

the International Sale of Goods.

The uniform law on the formation of contracts for the international sale of goods

The provisions of the convention relate to offer and acceptance. An offer is generally revocable until the offeree has despatched his acceptance. However, under the convention an offer is not revocable if it either states a fixed time for acceptance, or that it is irrevocable. This is different from the common law position where such a standing offer would be revocable if not supported by consideration.

At common law, an acceptance which varies the terms of the offer is not valid. However, under the convention, the acceptance will only be invalid if the qualification consists of an additional or different term which materially alter the terms of the offer unless the offeror promptly objects to the discrepancy. The convention rules also deal with the case of late acceptances which will be good unless the offeror notifies to the contrary.

The uniform law on the international sale of goods

This agreement consists of provisions dealing with the obligations of the seller and the buyer as to the time and place of delivery, the insurance and carriage of goods, the conformity of goods with the contract and the giving of goods title. Other rules deal with the passing of risk and the buyer's obligations as to payment and the taking delivery of the goods. These rules are in several respects different from the rules under the Sale of Goods Act. In particular, the uniform laws do not recognise the concept of the "condition" which exists under common law for the breach of which the buyer can reject the goods even though the breach causes him no loss. The uniform laws instead introduce a concept of "fundamental breach". Thus, in order to determine whether the buyer has a right to reject, one must examine the breach that has occurred together with its consequences. Rejection will be possible only if the breach is "fundamental", i.e. if a reasonable person in the position of the buyer "would not have entered into the contract if he had foreseen the breach and its effects".

The two conventions have been given statutory effect in UK by the Uniform Law on International Sales Act 1967. Malawi, for example, has not passed any enactment to give legal recognition to the Hague conventions and as such the rules under it do not have legal effect here unless a seller and buyer expressly agree that these rules shall govern their contract.

On April 11th 1980, another important convention - The United Nations Convention on contracts for the International Sale of Goods - was signed in Vienna. The intention of the convention was to supersede the Hague Conventions.

The contract of international sale of goods reflects a complexity which is absent in the home market sale. This is so because this contract is entwined with other contracts, specifically the contract of carriage of goods, the contract of insurance and the letter of credit arrangement.

These different transactions are often looked at as one entire activity unless something goes wrong somewhere, when the fault is isolated, thereby requiring separate analysis of the contract in question. Trade terms which have evolved over the years from the custom of merchants are used. These serve to outline the rights and duties of the seller and buyer. The most common of such trade terms are the FOB and CIF clauses. Although the meaning of these trade terms may vary slightly from one country to another, uniformity is obtained when the parties adopt the International Chamber of Commerce meaning of trade terms.

The international sale also involves another complexity; the problem of jurisdiction

and choice of law where rules as to obligations of the seller and the buyer are different in their respective countries. Although Private International Law rules help in dealing with this problem, there is need for the signing of treaties to try and provide ready rules on international sales which are uniform. This happened at the Hague in 1964. The United Nations Commission on International Trade Law is also busy promoting the convention of 1980. However, these efforts are wasted if countries do not pass national laws to give effect to the conventions as is the position in, for example, Malawi, with regard to the Hague conventions.

Chapter Summary

Global marketing logistics, referred to earlier in chapter four, can present to the unwary and uninitiated an enormously formidable barrier. Having the correct documentation internally and externally is vital or goods and services just simply cannot be exported.

Marketers or their agents must be familiar with Terms of Access, contracts, trade terms, commercial documents including insurance and financial documents, and the consequences of breaking any of the terms and conditions.

In many products, the more familiar the distribution network players are with each other and their individual systems, the easier the documentation process becomes to set up and operate. This reduction of transaction risk is a bonus and may involve the use of specialist agencies like freight forwarders and shippers.

Key Terms

Bill of Exchange FAS Letter of Credit
Bill of Lading FOB Non Tariff Barriers
CIF

Review Questions

1. What is the difference between the following contracts of trade?
 - a) FOB
 - b) FAS
 - c) CIF
2. Explain fully the meaning of bills of lading and bills of exchange
3. Describe the different types of letters of credit.

Review Question Answers

1. All the terms are used in contracts of sale.

- a) FOB (Free On Board)

The seller undertakes to place the goods on board a ship (maybe named) at a named port and berthing place. All changes to, and including delivery of goods over the ship's rail are borne by the seller, whilst the buyer has to pay all subsequent storage, freight etc. Contracts may be "strict" or with additional services.

- b) FAS (Free Alongside Ship)

Very similar to the above, except the seller will have performed his obligations when the goods are carried alongside the ship. The buyer must also nominate a ship.

c) CIF (Cost, Insurance, Freight)

It must be noted that a CIF contract is not a sale of goods itself but a sale of the documents of title. A buyer is under an obligation to pay against the shipping documents which are taken up by him. The seller arranges the shipping, invoice and freight. A buyer can reject the documents and the goods but not if he has accepted them.

2a) Bills of Lading

This document is the receipt given by the shipping company to the shipper for goods accepted for carriage by sea. If in negotiable form it also conveys title to the goods, and goods will only be cleared by the shipping company at destination against sender of a signed original of the bill of lading. The bill of lading endorses a contract of carriage. Bills can be "short", "linear" or "non-negotiable sea waybills"

b) Bills of Exchange

An unconditional order in writing, addressed by one person (drawer) to another (drawee) signed by the person giving it (drawer) requiring the person to whom it is addressed (drawee) to pay on demand, or at a final or determinable future time, a certain sum in money to, or to the order of, a specified person (payer) or to bearer.

c) Letters of Credit

Agreed in a contract of sale. The buyer instructs a bank in his own country (the issuing bank) to get a credit with a bank in the seller's country (the advising bank) in favour of the seller, specifying the documents which the seller has to deliver to the bank for him to receive payment. If the correct documents are tendered by the seller during the currency of the letter of credit arrangement, the advising bank pays him the purchase price or accepts his bill of exchange drawn on it, or negotiates his bill of exchange which is drawn on the buyer. Whichever method is used is pre-arranged between the seller and the buyer.

3. There are four main types of letter of credit:

a) The revocable and unconfirmed letter of credit.

Neither the issuing nor the advising bank is committed to the seller and as such the credit can be revoked at any time. This type of credit affords little security to the seller that he will receive the purchase price through a bank.

b) The irrevocable and unconfirmed letter of credit.

In this case, the authority that the buyer gives to the issuing bank is not revocable and the issuing bank is obliged to pay the seller, provided that he has tendered the correct document before the expiry of the credit. If the issuing bank defaults, the seller can sue it in the country where the bank has a seat. In some circumstances, the seller can sue the issuing bank in his own country if there is a branch office. From the point of view of the seller this type of letter of credit is a more valuable method of payment than a revocable and unconfirmed letter of credit.

c) The irrevocable and confirmed letter of credit.

In this type of credit, the advising bank adds its own confirmation of the credit to the seller. Thus, the seller has the certainty that a bank in his own country will provide him the finance if the correct documents are tendered within the time stipulated. The confirmation constitutes a conditional debt of the banker, i.e. a debt subject to the condition precedent that the seller tenders the specified documents. A confirmed credit that has been notified cannot be cancelled by the bank on the buyer's instructions.

d) Transferable

The parties to a contract of sale may agree that the credit is transferable. The seller can use such credit to finance the supply transaction. The buyer opens the credit in favour of the seller and the seller (who in the supply transaction is the buyer) transfers the same credit to the supplier (who in the supply transaction is the seller). This type of credit is used when a person buys goods for immediate resale and wishes to use the proceeds of resale to pay the original seller.

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Chapter 13: Organising, Planning And Controlling Global Marketing Operations

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The key to good organising, planning and controlling in global marketing is to create a flexible structure or framework which enables organisations to respond to relevant differences in the markets in which they operate, but, at the same time, delineates relationships clearly between parts and personnel of the company. There are no prescriptive solutions to the questions of what is the most appropriate organisational structure, planning framework and form of agricultural control. One thing is clear though - organisations can only work effectively if structure is defined, standards of performance are designed and communicated, and the control framework is fair, clear to all and agreeable. This is not to say that once the structure is defined, it cannot be changed. In fact, modern marketing thought is that formal structure is just not the order of the day. Many informal structures develop within formal frameworks. Many organisations make the mistake of setting a structure first, long before they have decided on a strategy. This is a recipe for disaster as it forces organisations to fit the strategy to the structure, with all the inherent dangers of such rigidity.

Objectives Of The Chapter

The objectives of this chapter are:

- To describe the pattern of international organisational evaluation
- To give an understanding of the different forms of global organisation and their advantages and disadvantages
- To discuss the different types of formal plans for global marketing and

examine the merits and demerits of each type

- To briefly describe the different methods of control in global marketing and the variables which can affect the control mechanism.

Structure Of The Chapter

The chapter starts with an examination of the evolution of global organisational development and then briefly describes some of the different types of organisational form and their advantages and disadvantages. The next section considers why planning is necessary in global marketing and reviews standardised, decentralised and interactive planning types. The chapter ends with an overview of the different types of control methods and a case study which serves as an example of global marketing control. The chapter does not consider the detail of control in global operations, this being left to any standard marketing text. As stated earlier, in most developing countries international marketing organisation is relatively rudimentary, so the forms of organisation will be only briefly covered here.

Agricultural systems: organisation, coordination and performance overview

As constantly stated in this text, production and marketing systems, whether they be food commodities, inputs or whatever, are interdependent. As such the activities and economic entities within the network of exchange relationships and any other coordinating mechanisms are complex. Because of this, analysts usually look at the activities of organisation, coordination and performance evaluation within a subsystem or single commodity. But this approach has drawbacks because the distinctions between traditional commodity systems are breaking down. Take for example the manufacturer of ready-to-eat meals. Not only does the manufacturer draw from meat, vegetables and many other raw material suppliers but substitute technologies may begin to "stray" into the traditional raw material supply system, for example, artificial flavourings.

Most agricultural products and commodity systems exhibit widely different organisational characteristics between countries. Different governments have different programmes, horizontal and vertical structural elements can vary, as can terms of access, competitive conditions, parallel marketing channels and the types of contractual and ownership integration.

Coordination in international marketing is complex and vital. For Israeli fresh produce to arrive on a UK's family table within 48 hours or less is quite remarkable, but a complex operation. Vertical coordination, harmonising all the vested production, marketing, exchange interfaces and value added stages is a challenge. In order to make the process flow smoothly, information is vital as well as an understanding of all definitions and permissible behaviours of the participants. Most failures to vertically coordinate will probably reveal themselves in resource misallocations, technical inefficiencies and other risks. An over-supply of tomatoes, for example, may incur storage costs or waste. One good example of an almost perfectly coordinated system is that of Geest bananas. Not only do the bananas ripen on the voyage over to the UK from the West Indies, but they are specially treated so that they ripen at the exact time when required. In evaluating agricultural performance a large number of indicators and norms are utilised. This-so called "structure, conduct and performance" paradigm is well documented (see Helmberger et al 1981)¹. Most work has centered around operational and allocative efficiencies as well as longer term development patterns and the environmental and the economic impact of commodity systems. But the analysis cannot stop there, as agricultural marketing involves marketing, so the quality of marketing sources should also be assessed, and put into quantitative forms.

Transaction costs should also be included. These primarily relate to costs associated with buying, selling and transferring ownership of goods and services, and are very wide ranging. These costs include information, negotiating contracts, the actual costs of transferring goods, services, money and ownership rights, costs of monitoring trade conditions and enforcing trading terms and conditions. Transaction costs tend to get less attention than other costs. Table 1 gives a summary of performance criteria useful in agricultural marketing.

The form of appropriate organisation depends on a number of factors including company goals, size of business, the number of markets operated in, the level of involvement in the market, international experience, the nature of the product, the width and range of the product line, the nature of the marketing task and the risk involved. Many organisational forms in developing countries are relatively unsophisticated. Many are "domestic" based, that is, they may have a small export division within the domestic based operation. Most organisations deal through agents or other merchanting houses which have their own organisation. Flowers and vegetables, exported from Eastern and Southern Africa, are generally sold through agents, auction systems or distributors in the country of destination. Because of this relative lack of sophistication this chapter will concentrate only briefly on the various forms of organisation.

Depending on the factors described above organisational development usually starts with dependence on outsiders, for example horticultural produce is usually handled by overseas agents who have their own exporting organisation or by a local network of services like cool store owners, freight forwarders and so on. As the organisation grows it usually has an overseas subsidiary which reports to it. This is exemplified by Oserian and Sulmac flowers of Kenya, who in turn are part of multinationals. Eventually, the organisation grows in complexity and extent of operations, which then gives rise to an International Division structure, with its own personnel. The next stage of evolution is the development of regional headquarters or regional management centres. Differences between regions are a pressure to create the regional centres. Regional centres can be costly, so they must be developed with care.

Table 13.1 Performance criteria useful in global marketing activities

OPERATIONAL ACTIVITY	ALLOCATIVE EFFICIENCY	LONG TERM DEVELOPMENT/ECONOMIC	MARKETING SERVICE	TRANSACTION COSTS
Production Extraction yields Capacity Utilisation Unit costs Input/Output ratios	Opportunity costs Costs of storage, transport Prices versus consumer preferences	Profitability Rates of return Rates of growth and volume and value Levels of raw materials, commodity wastage. Quality Variety Employment rates Innovation Technological development Risk analysis Income distribution Market access, Structure.	Transport delivery rates Order Grading Labelling Supply adjustments Uniformity to standards Mix of products Supply regulating Timing Information provision	Personal time, Travel, Communications Advertising Promotion Market research Inspection Services Property guards Recovery Reporting of stolen property Distribution Legal Consultancy Advocacy Advertising Insurance Transport Storage Financial Credit rating checks

Delayed payment procurement.

As the organisation continues to evolve, the international division may be replaced by a variety of structures like a geographical, product, function or strategic business unit approach. The area organisational form is used by highly orientated organisations with stable products. See figure 13.1.

Figure 13.1 Area organisational structure

The advantages and disadvantages of this form are as follows.

Advantages

- growth of regional groupings
- expertise grouping
- ease of communications
- knowledge of areas

Disadvantages

- suboptimal product and functional expertise allocation
- duplication
- lack of coordination.

A second organisational form is the product organisation structure. These product groups have global marketing responsibility² See figure 13.2.

Figure 13.2 Product organisational structure

The advantages and disadvantages of this form are as follows:

Advantages

Disadvantages

- flexibility
- shortage of area knowledge
- can miss marketing opportunities
- difficult to coordinate.

A third organisational form is the functional organisational structure. Here executives on functional areas have global responsibility. See figure 13.3.

The advantages and disadvantages of this form are as follows:

Advantages

- good for firms with narrow, homogeneous product line,
- good where regional variations are not too great

Disadvantages

- may miss market opportunities because of narrow focus.

Strategic Business Units (SBU)

SBU's are defined as a group of products or technologies that serve an identified market and compete with identified competitors. In many ways an SBU is not part of a formal structure but represents a process or system overlay for the purpose of developing a business strategy.

The final organisational form is that called a Matrix organisational structure. See figure 13.4. Matrix organisations are the most sophisticated form of organisation and bring together four competencies -geographic knowledge, product knowledge and know-how, functional competence in such fields as finance, production and marketing, and a knowledge of the customer (figure 13.4) industry and its needs. Management's task in a matrix organisation is to bring together all the above perspectives and skills to achieve particular objective(s). Matrix structures require a fundamental change in management behaviour, organisational culture and technical systems. One of the important things to remember is that structure must always follow strategy. Too often structures are developed long before a strategy is worked out. This can cause "straitjacketing" and lead to an inflexibility which is both unnecessary and stifling.

It is likely to be quite a while before less developed countries have developed a number of the organisational forms described above. The important thing is to keep an arrangement which allows the company to grow, control and manage its destiny.

Figure 13.3 Functional organisational structure

Global marketing planning

Planning involves where the organisation would like to be and how to get there, which involves goal setting and strategy determination. Planning involves three main activities:

- a) Situation analysis - where are we now?
- b) Objectives - where do we want to be?
- c) Strategy and tactics - how can we best reach our goals?

Planning gives a number of advantages:

- Gives rise to systematic thinking
- Helps coordinate activities
- Helps prepare for exigencies
- Gives activity continuity
- Integrates functions and activities
- Helps in a continuous review of operations.

The planning task depends on the level of involvement in a country. Exporting and licensing give minimum country involvement but joint ventures involve more in-country activity and give a greater degree of integration and control. Wholly owned subsidiaries give the organisation almost total control. Because of the "external uncontrollables" international planning is rather more difficult than domestic planning (see table 13.2). Planning can be standardised, decentralised or interactive.

Figure 13.4 Matrix organisational structure

Standardised plans

These offer a number of advantages:

- Cost savings on limited product range and economies of scale both in production and marketing, for example fertilisers.
- Uniformity of consumer choice across the world.

There are disadvantages:

- Different market characteristics make uniform products inappropriate,

for example, fresh milk products.

Environmental obstacles disallow standardisation; for example lack of refrigerated transport in developing countries.

Decentralised plans

Decentralised plans take into account the subtleties of local conditions; however they are usually very costly and resource consuming.

Interactive plans

In this approach headquarters devises branch policy and a strategic framework, and subsidiaries interpret these under local conditions, for example Nestlè. Headquarters coordinates and rationalises advertising, pricing and distribution. Within any of the above approaches plans can be either long or short term. Increasingly planning is becoming fairly routine. Most companies operate "annual operating plans" although these are often "rolled forward" to cover a few years hence.

Table 13.2 Domestic vs international planning

Domestic Planning		International Planning	
1.	Single language and nationality	1.	Multilingual/multinational/multicultural factors
2.	Relatively homogeneous market	2.	Fragmented and diverse markets
3.	Data available, usually accurate and collection easy	3.	Data collection a large task requiring significantly higher budgets and personnel allocation
4.	Political factors relatively unimportant	4.	Political factors frequently vital
5.	Relative freedom from government interference	5.	Involvement in national economic plans; government influences business decisions
6.	Individual corporation has little effect on environment	6.	"Gravitational" distortion by large companies
7.	Chauvinism helps	7.	Chauvinism hinders
8.	Relatively stable business environment	8.	Multiple environments, many of which are highly unstable (but may be highly profitable)
9.	Uniform financial climate	9.	Variety of financial climates ranging from over-conservative to wildly inflationary
10.	Single currency	10.	Currencies differing in stability and real value
11.	Business "rules of the game" mature and understood	11.	Rules diverse, changeable and unclear
12.	Management generally accustomed to sharing responsibilities and using financial controls	12.	Management frequently unautonomous and unfamiliar with budgets and controls

Planning concepts

In order to operate any type of plan, three types of information are essential:

- a) Knowledge of the market - customers, competitors and government
- b) Knowledge of the product - the formal product, its technology and its core benefit
- c) Knowledge of the marketing functions.

In many cases LDCs have found it difficult to make real international inroads often because they lack the information required. "Country grouping" is an effective way to plan. Hence countries are grouped according to a number of criteria and treated alike. Such criteria include market size, market accessibility (market or commercial

economies), stage of market development, prospects for growth, and promise for future growth and development. Zimbabwe may be a "promising" country for investment, but Somalia may not be "promising". Other concepts for planning are "competence centres". The mission of a competence centre is to formulate a global business strategy for a new business. Competence centres are not those developed through "leadership" ability but involve a number of factors like strategic location and skills.

In marketing planning, ultimately, the decision on the type of plan rests entirely on the size of the task, type of task and competence to achieve the task. In exporting flowers, say, to Europe, Zimbabwe would be well advised, with the small quantities involved, to leave the task to those experts in Holland and Germany whose knowledge and competence is far superior. The downside is that some market opportunities may be overlooked.

Global marketing control

Factors like distance, culture, language and practices create barriers to effective control. Yet without control over international operations, the degree to which they have or have not been successful cannot be judged.

Plans are the prerequisite to control, yet these are developed in the midst of uncertain forces both internal and external to the firm. Basically control involves the establishment of standards of performance, measuring performance against standards and correcting deviations from standards and plans. In international marketing the ability to control is disturbed by the distance, culture, political and other factors. Figure 13.5 illustrates a typical plan/control cycle.

Figure 13.5 The planning and control cycle

In well developed international operations headquarters may seek to achieve control over subsidiaries by three types of mechanism - data management mechanisms, merge mechanisms, which shift emphasis from subsidiary to global performance, and conflict resolution mechanisms that resolve conflicts triggered by necessary trade-offs.

The method of export control in many less developed countries takes the form of direct organisation by government. The appendix note at the end of this section describes the types of control imposed.

Formal control methods

Planning and budgeting

Planning and budgeting are the main formal control methods. The budget spells out the objectives and necessary expenditures to achieve these objectives. Control consists of measuring actual sales against expenditures. If there is tolerable variance then no action is usually taken.

Evaluating performance

Performance is evaluated by measuring actual against planned performance. The problem is setting a performance standard. Usually it is based on historical performance with some kind of industry average. Problems of international comparison inevitably occur like how does one plan in an environment where exchange rates fluctuate quite often during the budget period.

Influences on marketing budgets

In preparing a budget or plan, the following factors are important:

- a) Market potential - how large, can it be tested?
- b) Competition - what is the competitive level?
- c) Impact of substitute products - packaging can be substituted in many ways
- d) Process - headquarters may impose an "indicative planning" method or guidance.

Other performance measures

Other measures of performance include share of market, image, position or corporate acceptance. Often these are difficult to obtain where data or data collection is difficult.

Informal control method

When staff are transferred from market to market, they often take their standards of performance with them and these can be assessed. Other methods include face-to-face contact and evaluation.

Variables influencing control

A number of factors may influence the control methods. These include:

- a) Domestic practices and values of standardisation - these may not be appropriate
- b) Communication systems - have a heavy influence on control mechanisms - electronic control measures may not always be available
- c) Distance - the greater the distance, the bigger the physical and psychological differences
- d) The product - the more technological the product the easier it is to implement uniform standards
- e) Environmental differences - the greater the environmental differences the greater the delegation of responsibility and the more limited the control process
- f) Environmental stability - the greater the instability in a country the less relevance a standardised measure of performance has
- g) Subsidiary performance - the more a subsidiary does, or reports, a non variance, the less likely is there to be headquarters interference
- h) Size of international operators - the bigger and greater the specialisation of headquarters staff the more likely will extensive control be applied.

Obviously the ability to control any international operation, whether it be very sophisticated or relatively unsophisticated, the process will break down without adequate face-to-face and/or electronic communications.

Case 13.1 Controlling Export Operations - Malawi

Introduction

The foreign trade of many developing countries is subject to various controls. The instruments of control and the Intensity of application of these Instruments vary from country to country, depending on what happens to be the principal reason for their Institution.

Licensing is probably the most prevalent instrument of import/export control in developing countries. For reasons of self interest, import licensing is generally more pervasive than export licensing. To a considerable extent, tariffs and procedures and documentation on imports and exports also do play a controlling role.

This brief note concentrates on export licensing in Malawi, the coverage of the licensing and the reasons for its existence.

Export licensing in Malawi

In this country the main legal instrument for the licensing of both export and import trade is the Control of Goods Act (Chapter 18:08 of the Laws of Malawi) and the subsidiary regulations made thereunder. The administration of the Act falls primarily under the jurisdiction of the Ministry of Trade and Industry. However, occasionally and on specific products, the Ministry consults with other Institutions, like the Agricultural Development and Marketing Corporation (ADMARC) and the Ministry Of Agriculture when considering applications for export licences. Furthermore, In the case of tobacco exports, the control is relegated principally to the Tobacco Control Commission. Similarly, the administrative and day-to-day regulation of exports of bulk tea and coffee is largely done by the Trade Associations of those product groups - the Tea Association of Malawi and the Coffee Association of Malawi.

Coverage of export licensing

The products covered in export licensing are fewer than those which are subject to import licensing. Of the products which are listed as licensable under the Control of Goods Act, the commonest are the traditional agricultural export commodities, some of which are amongst the country's staple foodstuffs. They include items like maize, rice and beans. Since the institution of the Control of Goods Act, the list of licensable Items has been reviewed only very occasionally. The latest review was made in 1988 when items like scrap metals and cement were removed from the list of licensable exports. The list of exports subject to licensing under the above quoted Act and the regulations made under it, is reproduced in the Memorandum for the information of Importers and Exporters. A copy of the latter Memorandum is attached hereto.

Reasons for export licensing

We are living in an imperfect world. Mostly by acts of governments, perfect competition is not allowed to flourish in the world economy. Controls on imports and exports in Malawi were imposed for reasons that the world markets could hardly do certain things which the country would like. But, in a country where aggregate imports have usually been more than aggregate exports, it does not appear obvious that there could be any reason for licensing exports or for controlling export operations.

The following are the reasons for licensing exports and for controlling export operations

a) Food security

For the traditional exports which fall within the group of foodstuffs, the most important reason for licensing is the consideration to ensure food security. The striving for self-sufficiency in food supplies requires not only the promotion and expansion of production but also the maintenance of certain levels of supplies. With regard to the estimates as to what are adequate quantities of the different varieties of produce required by the domestic market, ADMARC plays the central role of advising Government on this. It is for this reason that, on considering applications for permits to export the produce, the Ministry consults with that Corporation. The common practice that has evolved is that, prior to the Ministry's consideration of the requests for permits, the requests and application forms are referred to ADMARC for the latter's advice. If ADMARC supports the applications, it endorses the forms with a 'no objection' advice.

b) Protection of raw material supplies

A few of the local industries use some of the local produce and items as raw materials. Examples of this are, the dhall industry (using various types of pulses), cooking oil industry (using groundnuts, sun-flower and cotton seeds), and the Malawi Iron and Steel Corporation (MISCOR) (using scrap metals) - although, as pointed out earlier on, the licensing of scrap

metal exports was decontrolled.

c) Monitoring

Licensing provides Government with an instrument for monitoring exports.

d) Direction of trade and political considerations

While Government would like to promote exports and hence would like to see no hindrances to export trade, occasionally need arises for controlling and influencing the direction both of imports and exports. The controlling and direction of import and export trade is done for political considerations (c.f. trade with Communist countries), for reasons of tactics and trade policy as they might affect the bargaining position of the country in its negotiations with neighbours and other trading partners.

e) Checking re-exports of strategic goods

A number of goods which are of strategic importance and on which the country spends a lot of foreign exchange could easily be re-exported by some businessmen, leaving the country with shortages of supply of the goods. Such goods include petroleum fuels and fertilizers.

There is, of course, the argument that re-exports could bring in a net inflow of foreign exchange. However, such an advantage on products like petroleum products hardly outweighs the disadvantages of disruption of supply to local users, including productive establishments.

f) Security reasons

This applies to metals and atomic energy materials of Strategic value and used in the production of arms, ammunition and implements of war. The instrument of export licensing in this connection is really for checking the potential rather than for controlling what is obtained in the current situation. The mineral products, metals and energy materials which are listed in the Control of Goods Act as licensable include items like uranium, beryllium, lithium and cobalt.

g) Conservation

For some products, export licensing, to a considerable extent, also assists in checking the wanton depletion of the base resources. The export items involved here include wild animals, wild animal trophies, and crocodile skins.

Operations globally can be evaluated and improved by a global marketing audit. Audits have a wide focus, are independently carried out, are systematic and conducted periodically. To be successful audits have to have objectives, data, sources of data and a time span and reporting format. Audits can cover the environment, strategy, organisation, system, productivity and functions. Unfortunately, as in any attempt to gather global data, all the pitfalls of politics, culture, and language differences arise.

Much of the preceding discussion covers more sophisticated forms of international control, except budgeting which is applicable to all types of exporting or global marketing. As stated earlier, many less developed countries have export controls imposed by governments. The Malawi case which follows gives an example of this.

See appendix 13A for a detailed export control document with reference to Malawi.

Chapter Summary

In every marketing plan there must be provision for organising, implementing and controlling marketing organisations. This is particularly important when marketing globally, due to the many possible pitfalls which can occur, described in the preceding chapters.

Depending on the size of the export or global operations a decision has to be made

on the type of organisation, whether it be area, product, function or matrix based; on what type of marketing plan, be it standardised or decentralised and on what method of control to install. Formal methods of control include budgets and informal methods include elements of auditing but this depends to a great extent on environmental differences, distance of the market to the seller, the product and other characteristics, not least of which is the size of the international organisation.

Key Terms

Area organisation	Interactive plan	Product organisation
Decentralised plan	Matrix organisation	Strategic business unit
Functional organisation	Performance evaluation	Strategic plan

Review Questions

1. What are the advantages and disadvantages of area, product, function and matrix based organisational structures in global marketing? Give examples.
2. Describe the factors which have to be considered when deciding on the form of marketing control in international operations.
3. By reference to any source of your choice, identify and describe the different possible forms of marketing control applicable to global operations.

Review Question Answers

1. a) Area organisation

Used by highly marketing oriented organisations with stable products.

Advantages

- growth of regional groupings
- expertise grouping
- ease of communications
- knowledge of areas

Disadvantages

- suboptimal product and functional expertise allocation
- duplication
- lack of coordination

Examples include

- Coca Cola, Nestle, Glasco

b) Product organisation

Here product groups have global marketing responsibility.

Advantages

- flexibility

Disadvantages

- shortage of area knowledge
- can miss marketing opportunities
- difficult to coordinate

Examples include;

- tractors, fertilisers

c) Functional organisation

Here executives on functional areas have global responsibility.

Advantages

- good for firms with narrow, homogenous product line
- good where regional variations are not too great

Disadvantages

- may miss market opportunities because of narrow focus

Examples include;

- insurance, financial services

2. Variables influencing control

A number of factors may influence the control methods. These include:

- a) Domestic practices and values of standardisation - these may not be appropriate.
- b) Communication system - has a heavy influence on control mechanisms -
- c) Distance - the greater the distance, the bigger the physical and psychological differences.
- d) The product - the more technological the product the easier it is to improve uniform standards.
- e) Environmental difference - the greater the environmental differences the greater the delegation of responsibility and the more limited the control process.
- f) Environmental stability - the greater the instability in a country the less relevance a standardised measure of performance is valid.
- g) Subsidiary performance - the more a subsidiary does, or reports, a non variance the less likely is there to be headquarters interference.
- h) Size of international operators - the bigger and greater the specialisation of headquarters staff the more likely will extensive control be applied.

3. Forms of contract

- Budgets ratio analysis
- Standard costings return on Investment/Capital employed
- Market share profit contribution
- Image break even analysis

Exercise 13.1 Comprehensive international marketing strategy⁴

Xavia, a Sub-Saharan Africa country, enjoys a moderate climate with one rainy season from November to March. Nature has endowed it with a good typography,

soils and rivers but it is prone to drought in particularly poor rainy seasons. Typically, it has a commercial farming sector and a small scale farming sector, the latter having farms in the region of 2 hectares in size.

Over the years the country has been building up its horticultural industry. In 1980 it produced some 5,000 tonnes, to some 21,500 tonnes of vegetables, fruits and flowers at present (1992/3). Over the same period, exports have grown from virtually zero to some 12,000 tonnes with a value of X\$ 80 million. Most of the exports are sourced from the commercial sector, but a number of schemes are being implemented in the small scale sector to increase the involvement of this large sector of the farming community.

In other countries, South America is serving the North American continent well, with its close proximity and political advantage. Australia has its own well developed industry, as do the Asian tigers, Malaysia, Thailand and South Korea. Japan is difficult to enter. The Middle East offers a distinct market, especially in fresh fruit and vegetables, but transport is a problem, there being only 10 cargo aircraft flights per week, with connections to major destinations.

Produce is mainly sold in the European Union, particularly UK, Holland and Germany, where agents handle most of the business to date.

Elsewhere in Africa, Zambia, Tanzania and Uganda are beginning to get their horticultural production organised and geared for a massive export drive to traditional consumption areas, i.e. the EU.

Massive investment in the country has seen the export potential of Xavia soar rapidly. By the year 2000 it is expected that the export crop availability will be dramatically increased as follows:

Produce	1992/93 Tonnes/annum	2000 Tonnes/annum
Cut flowers	3,985	8,200
Fresh produce (vegetables)	7,650	16,000
Citrus	8,750	160,000
Top fruit (mangoes, avocados, etc)	450	10,500
Soft fruit	50	500
Processed Products	550	50,000
Total	21,435	245,200

This increase in exports would place a huge burden on internal and external transport, especially air freight which would need to double in uplift capacity, and on the road/rail requirement. It would also need huge investment in pack-houses, storage (cool) and credit.

Task

Given the information above and the following, devise a comprehensive export strategy for the Xavia horticultural industry for 1994 - 1996. Clearly show Government Policy requirements, the targeted markets, the marketing mix (product, price, promotion, distribution), documentation and sources of finance.

Fruit and vegetables marketing - the future

Market predictions and future

Introduction The analysis of the individual products will have to take the following factors into consideration:

a) Trends in consumer demand

Whilst it is dangerous to over-generalise about the European market, trends and tastes differ in the developed markets of Europe. The growth is in:

- different versions of established products, i.e. a popular product but supplied during the off-season e.g. asparagus, summer fruits (N.B. there is no need to educate the consumer and can increase all sales of the product by being available through the year) i.e. Improved versions of existing varieties, e.g. cherry tomatoes, non-astringent persimmons, apples and bananas etc.
- certain tropical fruits such as lychees, mangosteen.
- small, very high priced markets for excellent taste and quality, e.g. tree-ripe fruit, baby vegetables, herbs.
- luxury items such as floriculture crops.

In addition there is the beginnings of a movement for better flavoured product and crops produced by 'self-sustainable' agriculture.

The more important aspects are the consumers' and the retailers' increased concern about health and hygiene with implications for pesticides and packhouse facilities.

b) The effects of Eastern Europe integration into the western trading system

Eastern Europe will have two influences. In some products it will supply the Western European markets with horticultural crops and in particular in processed products. It will also, in the longer term, open out new markets and expand demand, provided that their economies can develop. Eastern European consumers demand the mainstream products i.e. bananas, oranges, kiwi fruit and to a lesser extent, pineapples. In the medium term only East Germans are expected to influence total European demand significantly.

c) Changes in the post harvest technology and air freight competitiveness

Every year the technology of sea-freight improves, making possible cheaper transport for an ever wider range of crops. We are expecting to see a greater proportion of mangoes, pawpaw and even sweetcorn being sea-freighted over the next 5 years. Air freight is often the single most important cost. Southern and Eastern Africa air freight rates are higher than potential competitors in West Africa and the Caribbean.

Individual products

NB "Regional supply" means Xavia, Kenya, Tanzania, Zambia and Malawi and Zimbabwe.

The projections below have been based on our knowledge of the total European market; the future growth potential of each product is likely to have competition from other suppliers.

Fine Beans: The total EU import market has remained static at about 32,000 tonnes but Kenya has succeeded in increasing its share of the market from about 20% in 1985 to nearly 40% in 1989. Kenya is perceived as the only supplier of extra fine beans. Buyers feel over-reliant on Kenya and are looking for new suppliers. Potential threats to Kenya are Uganda, Tanzania and Nigeria. The market for fine and extra fine beans will grow, particularly in the UK supermarket trade which is currently very strong on legumes.

Prediction for 1995

Total Market	Regional Supply	Value	C&F Price
35,000 tonnes	20,000 tonnes	\$50,000,000	\$2,50/kg

Mange -tout: Continued growth in the market in the UK, France, with potential in Belgium and to a lesser extent Switzerland from its current estimated size in Western Europe of 6,000 tonnes and value of \$27 million of which perhaps 1,900 tonnes comes from the region. Keener competition from Nigeria will inhibit the region fully exploiting the growth in this product demand.

Prediction for 1995

Total Market	Regional Supply	Value	C&F Price
12,000 tonnes	2,000 tonnes	\$8,400,000	\$3,00/kg

Baby corn: This is mainly a British product with total sales in Western Europe guessed at less than 1,000 tonnes. The product is expected to transfer slowly onto the continent, probably starting in France. We expect that producers will be reluctant to grow it as it is difficult to see how it can be grown profitably.

Prediction for 1995

Total Market	Regional Supply	Value	C&F Price
2,000 tonnes	800 tonnes	\$8,400,000	\$4,25/kg

Chillies, okra and other Asian vegetables: Small specialized trade, mainly to the UK. Although some growth of sales to indigenous populations are at higher prices, the demand from immigrant populations is expected to decline as the newer generations lose commitment to traditional meals. Total market is currently about 9,000 tonnes and worth around \$25 million, of which 70% comes from the region.

Prediction for 1995

Total Market	Regional Supply	Value	C&F Price
7,500 tonnes	6,000 tonnes	\$15,000,000	\$2,00/kg

Asparagus: A major opportunity. A very high priced and seasonal product which is increasingly popular (15% growth per year) and with additional sales potential in Eastern Europe. It is a crop quite capable of production being manipulated to harvest all year round (AYR). European imports currently account for about 5,000 tonnes with a value of \$30 million. Unit gross wholesale prices are expected to fall from about \$6/kg to \$5.50/kg.

Prediction for 1995

Total Market	Regional Supply	Value	C&F Price
8,750 tonnes	1,000 tonnes	\$4,400,000	\$4,40/kg

Avocadoes: The major growth phase has now finished. Expect Kenya's market share to fall from about 2000 tonnes or 2%, unless sea freight to France can be successfully carried out.

Prediction for 1995

Total Market	Regional Supply	Value	C&F Price
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100,000 tonnes	1,800 tonnes	\$ 3,600,000	\$2,00/kg
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Pineapples: As an air freight product this region cannot compete with West Africa. The major market is for sea freighted product, with growth potential in Southern Europe, i.e. Spain, Italy and Greece and maybe Eastern Europe. Tanzania is developing sea freight to Italy with an aimed 3000 tonnes per annum. Kenya will maintain her exports at 3000 tonnes. Sea freighting pineapples is not a highly profitable export business with narrow margins and the need for economies of scale. The Western European market stands at about 250,000 tonnes and will expand at about 5% per annum.

Prediction for 1995

Total Market	Regional Supply	Value	C&F Price
275,000 tonnes	6,000 tonnes	\$ 4,800,000	\$ 0,80/kg

Passion fruit: Small European market of some 1000 tonnes. Some growth in France and Scandinavia -but two problems. Firstly, wrinkled skin when ripe is viewed as unappetising by consumers, and secondly, good shelf life means it could be sea freighted if a volume market develops. Ugandan production can create its own market niche.

Prediction for 1995

Total Market	Regional Supply	Value	C&F Price
1,500 tonnes	1,000 tonnes	\$ 3,500,000	\$ 3,50/kg

Mangoes: Mangoes will decline as an air freighted product to Western Europe. The Middle East market, however, offers good potential and an expanding market which Kenya is already accessing. With increased production sales will increase.

Prediction for 1995

Total Market	ME Market	Regional Supply	Value	C&F Price
40,000 tonnes	25,000 tonnes	25,000 tonnes	\$ 3,500,000	\$ 3,50/kg

Paw paw: Growing demand in Europe at 50% p.a., but only for small solo types. Should have good skins and strong coloured flesh. Sea freighted product from the Caribbean will be important. Sales potential in the Middle East, which is currently importing from S.E. Asia.

Prediction for 1995

Total Market	ME Market	Regional Supply	Value	C&F Price
15,000 tonnes	8,000 tonnes	1,000 tonnes	\$2,250,000	\$2,25/kg

Strawberries: Major market for off-season supplies. Kenya's production continues to expand and new projects expected in Zimbabwe and Uganda, while the major off-season supplier Israel is in decline. Sales already being made in the Middle East.

Prediction for 1995

Total Market	ME Market	Regional Supply	Value	C&F Price
10,000 tonnes	4,000 tonnes	1,500 tonnes	\$6,750,000	\$4,50/kg

Citrus: Around 9000 tonnes of navel oranges are imported from Zimbabwe into the

EU, mainly via Belgium (89%). Oranges are almost a commodity. Although volume sales are increasing (12% p.a.) unit prices have been falling by about 4.5% per annum. Sales in Eastern Europe expected to expand but the commodity will remain very price competitive.

Prediction for 1995

EC Market for citrus	EC Market for navels	Regional Supply	Value	C&F Price
4,170,000 tonnes	550,000 tonnes.	15,500 tonnes	\$12,000,000	\$0,80/kg

Other crops worth considering:

Legumes such as runner beans, flat beans, even peas and broad beans for off-season supply. Specialist crops such as salad onions, herbs, baby vegetables.

Any off-season production of temperate fruits, i.e. raspberries, blackberries, currants, nectarines, cherries, persimmons (non - astringent types).

Specialist tropical fruits such as lychees, mangosteen and apple bananas. These crops could generate a further \$10,000,000 p.a.

Current crops with little potential:

It is difficult to see how crops like courgettes (except baby sizes), aubergines, melons and sweet corn will cover current air freight rates.

Roses: A product with excellent potential. Expect to see rose projects in production in Kenya at 20 ha, Zimbabwe 80 ha, Zambia 7 ha and Malawi 3 ha. Imports are increasing by 20% p.a. Sales will increase very significantly but prices will fall to 25 cents a stem with production on around 110 ha.

Prediction for 1995

Dutch Market	Regional Supply	Value	C&F Price
3,000,000,000 stems	132,000,000 stems	\$ 26,600,000	20 cents/stem

Carnations: A product with good potential. Expect to see diversification to standard carnations and increased exports maintaining 7% p.a. growth. Prices will fall to 12 cents a stem.

Prediction for 1995

EC Market	Regional Supply	Value	C&F Price
25,000	6,750 or, 24,200.000.000 stems	\$25,000,000	10 cents/stem

Chrysanthemums: The relative high weight of chrysanthemums will not make this product especially profitable, and the growth will be less spectacular than the other products. Prices are predicted at 30 cents a stem.

Prediction for 1995

Dutch Market	Regional Supply	Value	C&F Price
1,250,000,000 stems	12,000,000 stems	\$2,880,000	24 cents a stem

Other cut-flower crops: Sales of all other flowers are expanding throughout Europe and expected to continue to increase as consumers become more sophisticated in their flower buying and keen for variety from the main items. Gladioli will be discontinued as their prices cannot cover the air freight. Crops like alstromerias,

asters, solidasters, proteas will expand. Field grown flowers like Ammi Majus will move from Zimbabwe to new production sites within the region. Statice will continue to be a major crop in Kenya. Other flower sales may amount to another \$60,000,000 p.a.

Canned products: sales of canned pineapples will remain at \$16 million, with perhaps a further \$2 million in other sales.

Total projected exports

Table 13.7 sets out the total projected exports. This anticipates an increase in the value of exports of 10% per annum for fresh produce and flowers. Total exports could be over \$250,000,000.

Table 13.7 Projected size of regional exports in 1995

	Value in US(\$'000s)	% of total value
Produce	124.5	56%
Cut flowers	115.5	44%
Sub total	240.0	
Canned products	18.0	
	258.0	100%

Processed products

The next section briefly outlines the opportunities for processed horticultural products. Canned products

Generally the sales of canned products have been in decline across Europe as consumers turn towards better methods of food preservation. The canned pineapples operations in Kenya are not located for optimum pineapple production and are competing against the dominant producers in South East Asia. Reports are coming in that canned French beans operations have started and look likely to be successful.

Dried vegetables

The dominant product is dried onions but the sale of all dried vegetables is in decline as soup consumption in Western Europe is falling. There is at least one dehydrated vegetable operation in Kenya. Its location is viewed as excellent because of the potential for all the year round supply. Quality is reported to be good. Within international trade, increased sales are found amongst the more minor products such as dried green beans, aubergines, courgettes and chives, and premium prices are paid for good quality, well coloured products like red peppers and green cabbage. Micro-biological standards are becoming more stringent amongst buyers and the German market is particularly fussy about sulphur levels.

Frozen vegetables

Home freezers and microwave ovens have resulted in increased sales in frozen vegetable products. It is unknown why no major frozen vegetable factory has been established in the developing world. Climate and infrastructure would be suitable both in Zimbabwe and Kenya.

Semi-prepared products

With increased sales of all types of convenience foods, some exporters developed semi-prepared vegetable products, i.e. peeled and diced etc. Some are prepacked for immediate microwave use. Another example is the sale of peeled and sliced

pineapple sections treated with a natural bactericide (eg. citric acid and prepacked). Both products are high value and can carry air freight rates.

Fruit juices

Increased consumption of fruit juices is a world wide trend. Passion fruit plants have been considered in Kenya and in Zimbabwe. Passion fruit prices are notoriously unpredictable. They peak at over \$5,000 per tonne and drop to \$2,000 per tonne. Very often projects fail because they are budgeted on high prices rather than using a low working average in the initial study. Secondly, international trade in fruit juices is dominated by very few trading companies, which places the grower/processor in a very weak negotiating position.

Spices and oleoresins

Currently, Malawi is a respected supplier of the extremely hot bird's eye chilli peppers. Unfortunately, the market is relatively small and the product very low priced for an extremely labour intensive crop. The potential exists for growing other varieties of chillies. The demand for paprika oleoresin (the market for the extracted colour component for dried paprika oleoresin has been expanding with the increased demand for natural colorants in developed countries). The world market stands at about 500 tonnes and is worth approximately \$30 million. A successful plant has been operating in Ethiopia for the last 20 years. Paprika peppers are an ideal small farmers group. Oleoresin operation could be suitable for Zimbabwe. The world price for vanilla has continued to increase. This crop grows successfully in Uganda. The new rapid curing technology is producing a product of the highest standard and sales are being made to the world's major buyers.

Dried Flowers

The European market for dried flowers is currently worth \$70 million a year and is currently expanding at 15% per annum. 25% of the products are imported from outside the EU. Zimbabwe, with her skills in floriculture and the crop drying technology used for tobacco, should be able to develop a portion of this trade for herself.

Marketing channels

The typical flow patterns for horticultural exports into the EU from the region are set out below. There will be differences between countries and individual growers.

FRESH PRODUCE

The majority of the produce imported will be routed by importers and end up for sale in supermarkets, possibly via a pre-packer.

The vast majority of Zimbabwean flowers and over half Kenya's are sold via Dutch importers who put about 90% of their imports through the Auction markets. Most of this material (about 70%) is exported out of Holland to other European markets, but particularly Germany, where it is sold by Wholesalers to Florists. Sulmac, of Kenya, own their own marketing company in Germany (a joint venture with Florimex) which facilitates direct sales into this important market.

Germany is the largest market in Europe. The major wholesale markets are Hamburg, Dusseldorf, Berlin and Cologne. The larger importers will import themselves from outside the EU. Agents working on behalf of the non-EU exporter are often used to provide market feed back.

After Germany, France is the major import market, and a market expanding at 15% p.a. Specialist importers supply the wholesale trade, which is mainly centred around the Rungis market in Paris.

In the UK, sales are increasing by over 20% which reflects the sudden interest of supermarkets in cut flowers. Sales are made to them by major importing companies, many of whom will make up bouquets, using flower mixes sourced from different countries according to price.

FLOWERS

Key statistical data on horticultural marketing

Table 13.8 Average percentage growth in horticultural exports from developing countries

Year	Fruits	Vegetables
1965-75	6.5%	11.4%
1975-85	9.0%	6.3%

Table 13.9 Developing countries share of the world trade in fruits & vegetables

Year	Fruits	Vegetables
1961-63	38%	24%
1975-77	36%	25%
1983-85	42%	28%

Table 13.10 Developing countries share of world trade & growth

Commodity	% Share	% Annual growth 1965-75	% Annual growth 1975-85
Fresh Fruit	40	5.5	6.9
<i>Bananas</i>	94	5.1	6.7
<i>Citrus</i>	30	9.1	6.6
<i>Tropical</i>	60	11.3	11.7
<i>Tree Nuts</i>	70	3.2	1.8
Processed Fruit	40	8.1	11.2
<i>Non-Tropical Fruit</i>	50	21.9	24.6
<i>Tropical Juices</i>	60	14.9	17.8
<i>Other Tropical Fruit</i>	87	8.6	5.1
<i>Tree Nuts</i>	40	9.2	7.7
Fresh Vegetables	23	7.1	7.5
<i>Roots</i>	24	9.0	6.0
<i>Misc. Vegetables</i>	25	6.7	7.9
Processed Vegetables	32	15.4	7.8
<i>Roots</i>	3	2.4	3.0
<i>Pulse</i>	49	10.0	7.0
<i>Misc. Vegetables</i>	27	23.1	8.4

Table 13.11 Annual average growth in horticultural imports by major market

Country	1965 - 75	1975 - 85
United States	8.4%	15.0%
Western Europe	11.0%	4.8%
Japan	18.3%	10.6%

Table 13.12 Projected % annual growth in horticultural imports by major market to 2000

Country	Fruits ¹	Vegetables ¹	Flowers ²
United States	1.34 - 2.09	0.83 - 4.50	9.0
Western Europe	1.01 -2.67	0.39 - 2.97	4.0
Japan	2.14-5.19	0.81 - 3.66	5.0

Table 13.13 Projected value of horticultural import market by 2010 in US\$ (million)

Country	Horticultural			Floricultural		
	Current Value	% Growth	Future Value	Current Value	% Growth	Future Value
United States	5.500	2.20	7.920	225	9.00	630
Western Europe	16.500	1.76	22.300	1.800	4.00	3.240
Japan	4.600	2.95	7.360	100	5.00	200

¹ Islam, N., Horticultural Exports Policy Issues, IFPRI. 1990.

² Doesburg, J.V., Channels of Flower Distribution, Int. Floriculture, Vol 1, Nos. 4.

Table 13.14 Value of world trade of horticultural products in US\$ (000's)

	1975 - 77	1983 - 85
Fresh Fruit	5,550	8,400
Processed Fruit	3,650	6,750
<i>Sub Total</i>	<i>9,140</i>	<i>15,195</i>
Roots	887	879
Misc Vegetables	2,114	3,339
Processed Veg	2,964	5,103
<i>Sub Total</i>	<i>6,073</i>	<i>9,600</i>
Totals	15,213	24,795

Table 13.15 Value of international trade in cut flowers in US\$ (000's)

Country	Value
Germany	800
United States	225
France	200
United Kingdom	170
Holland	115
Japan	100
Switzerland	125
Others (Est.)	465
Total	2,200

Table 13.16 Value & share of horticultural exports of developing countries by region, 1983 - 1985

	Horticultural Exp US\$ billion	% Share trade	%Growth 1975 - 85
Developing Market Economy	8.0	32.0	8.6
Africa	0.6	2.6	-0.1
Latin America	3.9	15.6	10.8
Near East	1.8	7.3	7.2
Far East	1.6	6.6	10.2

Table 13.17 Exporters and importers

Import market	Exporting regions: Horticultural products	Exporting regions: Cut flowers
Western Europe	Israel N Africa, Morocco, Egypt West Indies & Caribbean Central America South America West Africa South Africa East Africa Eastern Europe	Israel Colombia Kenya Zimbabwe Turkey
United States	Mexico Costa Rica, Honduras Chile, Peru China, Taiwan Caribbean Basin	Colombia Netherlands Israel
Japan	United States Taiwan China Thailand New Zealand Australia	Netherlands Thailand Taiwan

Table 13.18 Leading horticultural nations in developing countries

Country	Horticultural exports US\$ (Million) 1983-85	% Share Trade	%Growth 1965-75	% Growth 1975-85
1. Brazil	1,140	4.44	19.1	21.30
2. Turkey	911	3.55	12.9	10.60
3. China	552	2.22	10.7	7.10
4. Taiwan	544	2.12	6.1	6.40
5. Mexico	510	1.99	11.1	5.60
6. Philippines	358	1.39	18.0	8.50
7. Chile	344	1.34	13.8	19.10
8. Thailand	296	1.19	20.3	16.50
9. Morocco	291	1.14	7.3	0.10
10. Argentina	273	1.07	13.3	1.40
11. Honduras	258	1.01	-	12.60
12. Costa Rica	243	0.95	17.7	5.70
13. India	240	0.94	7.8	4.73
14. Hong Kong	189	0.74	10.0	17.40
25. Cote d'Ivoire	84	0.33	12.8	3.10

26. Kenya	76	0.30	13.6	9.00
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Table 13.19 Leading exporters of cut flowers

	Country	US\$ (Million) 1987
1	Netherlands	1,500
2	Colombia	173
3	Israel	108
4	Italy	90
5	Spain	65
6	Kenya	30
7	France	18
8	Mexico	10
9	Peru	10
10	Morocco	5
11	United States	5
12	Turkey	3
13	Equador	3
14	Zimbabwe	2
15	Costa Rica	2

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Appendix 13A: Export control - The Malawi case

Part I - General notice

Warning to importers

1. Discretion as to issue of import licences

Import licences may be refused by the responsible authority without any reason or prior notice being given. Importers are warned that in such circumstances, any importer who places a firm order for goods and allows goods to be shipped, without first obtaining an import licence where such is required in respect of the particular goods, faces the possibility of financial loss through having to return the goods to the supplier.

2. Period of validity of import licences

Import licences are issued in most cases for a period of validity extending six months from the date of issue. In cases where it is not possible to obtain delivery of the goods within the period of six months, consideration may be given for the extension of licences on application, provided an adequate and acceptable explanation is given.

At the time of making application for extension of licence, a letter from the supplier explaining the reason for the delay should be produced.

3. Withdrawal of licences

Importers should note that failure on their part to comply with any provision laid down in various Government Notices (as amended) listed on page 3, or with any condition endorsed on a licence at the time of issue, may constitute grounds for an authority to revoke a licence. Licences may be revoked or amended by the Minister on grounds of national interest.

4. Goods imported under open general licence

To avoid subsequent embarrassment importers are urged to approach the Ministry and clear the importation of all goods about whose qualification for entry under Open General Licence they have any doubts whatsoever.

Furthermore, unnecessary delays in the processing of applications for import permits would be reduced if all applications were accompanied by a full and accurate description of the type of goods to be imported and all supporting documents attached to the application forms such as indent or order and copy of trading licence(s) in cases whereby the imported goods would be sold.

5. Country of origin

In all cases the determining factor in assessing the need for an import licence is the

country of origin and not the country of supply. Importers are, therefore, advised to ascertain from their suppliers the country of origin of the goods so that if an import licence will be required this could be obtained before a firm order is placed to avoid the possibility of financial loss (see 1 above).

6. Application for licences and enquiries for general Information on trade

Application for import and export licences and enquiries about import and export controls should be submitted to:-

The Secretary for Trade, Industry and Tourism,
Gemini House,

P. O. Box 30366,
Capital City,
LILONGWE 3,
Malawi

Telephone: 732 711 Telex: 44873

General information on exports from Malawi may be obtained from:-

The General Manager,
Malawi Export Promotion Council,
Delamere House,
P. O. Box 1299
BLANTYRE.
Malawi

Telephone: 620 499 Telex: 44589

General information regarding imports into Malawi may be obtained from:-

The General Manager,
The Associated Chamber of Commerce &
Industry of Malawi,
P. O. Box 258,
BLANTYRE.
Malawi

Telephone: 671 988 Telex: 43992

7. Statutory Instruments

This memorandum is published for information only and shall not be taken in any way to vary the provisions of the under-mentioned Government Notices, which may be amended from time to time.

Control of Goods (Import & Export) GN. 307 of 1987 (as amended)

Control of Goods (Import & Export) GN. 82 of 1988 (Agriculture) Regulations.

Control of Goods (Import & Export) GN. 83 of 1988 (Agricultural) Order.

Control of Goods (Import & Export) GN. 84 of 1988 (Commerce) Order.

Control of Goods (Import & Export) GN. 85 of 1988 (Commerce) Regulations

Control of Goods (Import & Export) GN. 85 of 1988 (Commerce) Order.

8. Importation by Private Individuals Private individuals may apply for the private importation of individual articles, where goods are allowed to be imported under

licence,

Part II - Goods from any source not requiring import licences

The following goods, unless otherwise restricted, originating in any country, may be imported without the authority of an Import Licence:-

1. Antifriction and lubricating greases
2. Motor spirit, including aviation fuels
3. Lubrication oils
4. Oils and fuels, illuminating, transformer and insulating types, power and illuminating paraffin
5. Exposed cinematograph films
6. Goods in transit through Malawi
7. Used personal and household effects, imported by a person arriving in Malawi to take up residence or employment therein
8. Goods temporarily imported into Malawi by a bona fide tourist for his own use
9. Goods not exceeding a total value of Malawi K50 accompanying a person entering Malawi and intended for private use of such person or his family
10. Any bona fide unsolicited gift not exceeding Malawi K50 in value
11. Samples and advertising materials intended solely for use in the taking of orders, and not for sale
12. Any goods exported from Malawi for repair and return, and in respect of which a certificate to that effect has been issued by an officer of the Department of Customs and Excise.

Part III - Goods requiring import licences from all sources

1. Clothing and uniforms designed for military, naval, airforce or police use.
2. Used clothing, other than the personal effects of an individual.
3. Gold, including:-
 - a) unmanufactured gold in any form whatsoever; or
 - b) any article or substance containing such unmanufactured gold, or
 - c) any article consisting of, or containing gold which although manufactured is, as such, not gold coin, an article of commerce, a work of art, or of archaeological interest; or
 - d) gold derived from the smelting or treatment or any manufactured article containing gold.
4. Sugar.
5. Any knife having a blade which either:
 - a) opens automatically by hand pressure applied to a button, spring or any other device in or attached to the handle of the knife sometimes known as a "flick-knife" or "flick-gun"; or

b) is released from the handle or sheath thereof by the force of gravity or the application of centrifugal force and which if released, is locked in place by means of a button, spring, lever or other device, sometimes known as "gravity-knife".

6. Radioactive substances.

7. Game traps.

8. Mist nets for the capture of wild birds.

9. Wild animals, wild animal trophies and wild animal products (including birds and reptiles) and any egg produced by such birds or reptiles.

10. Live fish, including the eggs and spawn thereof.

11. Bees, honey, unmanufactured beeswax, foundation combs.

12. Beans, but excluding the following:-

a) Seed beans in quantities of less than 90 kgs.

b) Beans which are tinned, bottled or otherwise preserved.

13. Compound products containing flour, meal residues and other preparations of a kind suitable only for use as animal foodstuffs but excluding the following:-

a) Chemical additions to animal foodstuffs;

b) Antibiotic growth stimulants;

c) Inert fillers;

d) Trace elements;

e) Synthetic animal foodstuffs;

f) Bird seed;

g) Cat and dog foods; and

h) Salt-lick for cattle.

14. Eggs of poultry, whether in shell, pulp or dried forms; eggs of wild birds.

15. Gram and dhal

16. Groundnuts.

17. Maize including:-

a) maize grits;

b) maize cones;

c) hominy chop;

d) maize offals; and

e) processed maize meals with or without additives.

18. Oil seeds, oil meal, oil cake, offals and residue from oil seeds.

19. Potatoes.

20. Live poultry, including day-old chicks.

21. Rice.

22. Rupoko, rupoko meal (finger millets).

23. Bananas.

24. Meat.

The importation of all meats, including dressed poultry, is prohibited without prior permission in writing from the Minister of Trade, Industry and Tourism. The Minister has, however, exempted the following from import licensing control:-

- All tinned meat
- All potted meat
- Meat soaps
- Meat pasties
- Edible meat fats
- Tallow

- All cooked or cured meats other than cooked pork, ham and bacon.

The importation of all animals and other animal products require to be certified as free from disease before importation.

25. Exercise books.
26. Fertilizers.
27. Dieldrin.
28. Aldrin.
29. Kitchen and table salt.

Part IV - Countries from which goods must be licensed in every case

Subject to Part II, goods originating in the countries listed below require import licences *in every case*.

Application for licences will be considered on their merits before orders are placed.

Andorra
Muscat and Osman
Albania
Bulgaria
Cuba
Czechoslovakia
East Germany
Muscat and Osman
Mongolia
North Korea
Tibet
USSR

Part V - Import of military type clothing and materials and machinery for industrial use

i) Military type clothing

Import licences for new military type clothing of any kind will be issued only if the importer produces evidence that he has obtained an order from the Army or Police authorities.

ii) Raw materials and machinery for industrial use

The Secretary for Trade, Industry and Tourism is prepared to consider the issue of licences authorising the import into Malawi of any raw material or machinery from any country if the material or machinery is for use in an industry within Malawi. Such applications will be considered on their merits and licences must be applied for before firm orders are placed.

Part VI - Other legislation affecting importation of certain goods requiring import licences

i) Firearms and ammunition ordinance

All applications for permits for the importation of firearms and ammunition and explosives should be made to the Inspector General of Police, Private Bag 305, Capital City, Lilongwe 3.

ii) Dangerous drugs ordinance

The importation of certain drugs and poisons is controlled by the Ministry of Health. Applications should be made to the Secretary for Health, P. O. Box 30377, Capital

City, Lilongwe 3.

iii) Soap

The importation of soap is subject to special regulations set out in the Control of Goods (Importation of Soap) Order, 1967, (GN. 64 of 1967).

iv) Merchandise marks

The attention of the importer is drawn to the provisions of the Merchandise Marks Act, which prohibits the importation of goods bearing forged trade marks or false trade descriptions, or marked with offending marks in terms of the Ordinance Act 17 of 1957 and Act 17 of 1959.

v) Weights and measures

The attention of importers is drawn to the provisions of the Weights and Measures Act and to the Weights and Measures (Sale of Articles) Regulations (F. GN. 273 of 1959), as amended, controlling the sale of certain articles in specified weights.

vi) Protected flags, emblems and names act, 1967 (Act 10 of 1967)

This Act provides, that without the written permission of the Minister, no person shall import or possess for the purpose of sale any article bearing any protected colours or cork symbol or any article on which or in respect of which any title of any patent or any trade mark or design is used in connection with any or the foregoing, or which resembles or is capable of representing any of them.

The Act provides for the safeguard of the dignity of the Head of State, the National Flags, the Armorial Ensigns, the Public Seal, and prohibits the use of any likeness of the President, the word "President", the names, styles and titles of the President, the words "Malawi", "Unity and Freedom", "National", "Republic" and "University".

(Books, newspapers and periodicals do not fall within the scope of the Act).

Part VII - Goods requiring export licences

The following goods may *not be exported without a licence*:-

1. Implements of war (other than arms and ammunition), atomic energy materials strategic value, and items of primary strategic significance used in the production of arms and ammunition and other implements of war:-

- Beryllium
- Cobalt
- Tantalum
- Uranium
- Lithium
- Columbite
- Niobium (columbium)
- Thorium
- Germanium
- Titanium
- Nickel and nickel alloys and any materials containing such metals.

2. Petroleum products.

3. Wild animals, wild animal trophies and wild animal products including birds and reptiles and any eggs produced by such birds or reptiles.

4. Bean meal
5. Sorghums, sorghum meal, sorghum salt
6. Groundnuts
7. Beans and peas
8. Maize, including:-
 - a) dried maize, on or off the cob; and
 - b) crushed maize; but excluding green maize on the cob.
9. Maize meal including:-
 - a) Maize grits;
 - b) Maize cones;
 - c) Maize offals; and
 - d) Hominy chop.
10. Munga, munga meal (millets).
11. Oil seeds, oil meals, oil cake.
12. Rice.
13. Rupoko, rapoko meal (finger millets, gram or dhal).
14. Seeds for planting, in quantities of more than 90 kgs.
15. Unmanufactured tobacco.
16. Live fish, including the eggs and spawn thereof.
17. Crocodile skins.
18. Gemstones unmanufactured.
19. Tea (including tea seeds).
20. Cassava.

Part VIII - Preferential trade area (PTA)

Malawi is a member of the Preferential Trade Area (PTA) currently grouping 15 countries of Eastern and Southern Africa. Under the provisions of the Treaty establishing the PTA, goods included in the Common List of Commodities may be traded among member States under preferential treatment as long as they satisfy the requisite Rules of Origin.

Interested parties requiring more information on this subject may contact:-

The Secretary General
Preferential Trade Area for Eastern
and Southern African States,
Ndeke House,
Haile Selassie Avenue,
P. O. Box 30051,
LUSAKA.
Zambia.
Telex: PTAZA 40127 Cable: PTA LUSAKA
Telephone: 219880/1/2/3/4

Copies of the PTA certificate of origin may be obtained from Associated Chambers of Commerce and Industry of Malawi, P. O. Box 258, Blantyre, Malawi.





Glossary of marketing terms

Absolute advantage. One country enjoying total lower costs of production than another country (ies).

Adaptation. Goods or service adapted in either product, distribution or advertising form to take account of unique conditions in any one country(ies).

Advertising. Any form of marketing communication in the paid media.

Agent. A channel institution which represents one or more suppliers for a fee.

Aggressive exporter. An organisation which develops clear marketing strategies for what it intends to do in a foreign markets.

Anthropology. The discovery of beliefs, motives and values through the study of a society's overt and covert behaviour.

Area organisation. A form of international organisational structure used by highly marketing oriented organisations with stable products.

Attitudes and values. A predisposition towards a person or object based on cultural mores and values which is a precursor of behaviour.

Balance of payments. A measure of all economic transactions between one country and all other countries.

Barter. The direct exchange of goods and services between two parties, often without cash considerations.

Basis trading. The difference to new york futures, either on or off.

Bill of lading. The receipt given by the shipping company to the shipper for goods accepted for carriage by sea. (as opposed to an airway bill of lading for goods carried by air).

Bills of exchange. An unconditional order in writing, addressed by one person (drawer) to another (drawee), signed by the person giving it (drawer), requiring the person to whom it is addressed (drawee) to pay on demand, at a fixed or determinable future date, a sum certain in money to, or to the order of, a specific person (payee) or to bearer.

Broker. A channel institution which puts a specific buyer(s) and seller(s) in contact with one another in one or more commodity(ies) or service(s) with a view to achieving a sale or benefit.

Brussels nomenclature. An international convention aimed at grouping articles, mainly according to their material composition, into a simplified classification system for tariff administration.

Budget. An amount of money set aside to cover the total cost of a communication campaign or other marketing activity.

C.I.F. A contract of sale "cost, insurance freight" of the documents of title, not the goods, whereby the buyer is under an obligation to pay against the shipping documents irrespective of the arrival of the goods.

Cluster analysis. A technique for grouping similarities or differences between a set of objects or persons.

Comparative advantage. One country enjoying a lower production ratio (input to outputs) than another country under total specialisation.

Comparative analysis. Comparing the same set of statistics within a category of one country with another for the purpose of estimating potential demand.

Competition. A product, organisation or individual, in either the same or another category which can be directly substituted one for the other in fulfilling the same needs or wants.

Competitive strategy. The adoption of a specific target market and marketing mix stance in the market place.

Cooperative. A collection of organisations or individuals, pooling their resources in order to gain commercial or non-commercial advantage in buying, selling or processing goods and/or services.

Countertrade. An agreement by the customer to buy goods on condition that the seller buys some of the customer's own products in return.

Culture. The sum total of learned behavioural characteristics or traits which are manifest and shared by members of a particular society.

Currency swaps. A method to gain access to foreign capital at favourable rates comprising contracts to exchange cash flow relating to the debt obligations of the two counterparts to the agreement.

Decentralised plans. A planning system taking into account differences in product/market conditions.

Demand pattern analysis. The analysis of in-country industrial sector growth patterns.

Devaluation. The reduction in the value of one currency vis a vis other countries.

Diffusion theory. A classification for the adoption of innovation(s) through social phenomenon, characterised by a normal distribution.

Distribution channel. An institution through which goods or services are marketed giving time and place utilities to users.

Dumping. The selling of goods or services in a buying country at less than the production unit price in the selling country, or the difference between normal domestic price and the price at which the product leaves the exporting country.

Duty. The actual custom duty based on an imported good either on an ad valorem, or specification amount per unit or combination of these two.

Ethnocentrism. A home country orientation but with export of surplus production.

Exchange rate. The ratio of exchange of one currency to another.

Export credit guarantee fund. A facility, provided by government treasury, to guarantee the development costs of exports or legal claims arising there from.

Export processing zone. A zone, designated within the country, enjoying tax privileges or other status, where goods and services can be brought into, reprocessed and re-exported.

Exporting. The marketing of surplus goods produced in one country into another country.

Expropriation. The annexation or seizure of national assets as an extreme form of political action.

F.A.S. A contract of sale "free along side" whereby the seller undertakes to place the goods alongside a ship ready for boarding and carry all charges up to that point.

F.O.B. A contract of sale "free on board" whereby the seller undertakes to place the goods on board a named ship at a named port and berth and carry all charges up to delivery over the ships rail.

Foreign exchange. Facilities' business across national boundaries, usually expressed in foreign currency bought or sold on the foreign exchange market.

Forward rates. A mechanism whereby the risk of changes in exchange rates can be covered by obtaining a new rate quote for a future exchange of currencies.

Future. A legally binding contract to deliver/take delivery on a specified date of a given quality and quantity of a commodity at an agreed price.

General Agreement on Tariffs and Trade (GATT). An institutional framework producing a set of rules and principles with the intention of liberalising trade between member countries.

Geocentrism. A world orientation with world market strategies.

Global environment. All semi or uncontrollable factors which a marketer has to account for in carrying out global operations.

Global evaluation. A four stage organisational development process evolving from first stage; domestic focus to a fourth stage; global marketing strategy of extension, adaptation and creation of market opportunities.

Global marketing. Marketing on a worldwide scale reconciling or taking commercial advantage of global operational differences, similarities and opportunities in order to meet global objectives.

Global products. Products designed to meet global market segments.

Gross domestic product (GDP). The value of all goods and services produced by a country's domestic economy in one year.

Gross national product (GNP). The market value of all goods and services outputted by residents of a country in one year including income from abroad.

Hedging. A mechanism to avoid the risk of a decline in the future market of a commodity, usually by entering into futures markets.

Hierarchy of needs. The ordering of a person's needs into hierarchy of relative potency such that as lower order needs are fulfilled higher, unfulfilled order needs emerge, which require fulfillment.

High context culture. Minimum reliance on explicit verbal or written conversations, more on the "implied".

Ideology. An individual's organisation or country's political belief.

Income elasticity measurements. A description of the relationship between the demand for goods and changes in income.

Income per capita. The market value of all goods and services outputted by a country divided by the total number of residents of that country.

Inflation. A condition where demand outstrips supply or costs escalate, affecting an upward change in prices.

Information system. A system for gathering, analysing and reporting data aimed at reducing uncertainty in business decision making.

Interactive plans. A planning system whereby headquarters sets a policy and framework and subsidiaries interpret these under local conditions.

International monetary fund. A fund, with world wide country membership, (united nations) which lends money to countries on a short term basis to assist them balance of payments problems.

International product life cycle. A model which suggest that products go through a cycle whereby high income, mass consumption countries go through a cycle of exporting, loss of exports to final importers of products.

International products. Goods or services seen as having extended potential into other markets.

Joint ventures. An enterprise in which two or more investors share ownership and control over property rights and operations.

Letter of credit. A method of international payment whereby the buyer instructs his own country bank to open a credit with the seller's own country bank specifying the documents which the seller has to deliver to the bank for him/her to receive payment.

Levy. A tax imposed by government, to meet a specific objective.

Licensing. A method of foreign operation cooperation whereby an organisation in one country agrees to permit a firm in another country to use the manufacturing, processing, trademark, know-how or some other skill provided by the licensor.

Local products. Goods or services seen only suitable in one single market.

Low context culture. High reliance on explicit verbal or written communications or other explicit format.

Market entry. The way in which an organisation enters foreign markets either by direct or indirect export or production in a foreign country.

Market holding price. The charging of a price at what the market can bear in order to hold market share.

Market positioning. The adoption of a specific market stance, either leader, challenger, follower, flanker or adopter, vis a vis competition.

Marketing. Planning, executing and controlling the conception, pricing, promotion and distribution of ideas, goods and services in order to build lasting, mutually

profitable exchange relationships satisfying individual and organisational objectives.

Matrix organisation. A complex form of organisational structure bringing together the competencies of geographic knowledge, product knowledge and know how, and functional competencies - financial, production and marketing - and a knowledge of the customer, industry and its needs.

Media scheduling. A timetable for the allocation of advertising messages in the media over a given time horizon.

Media. Any paid for communication channel including television, radio, posters etc..

Mercantilism. A nationalist doctrine of one nation prospering at the expense of another nation.

Message. An informative communication about a product or service placed in a communication channel.

Multinational products. Goods or services adapted to the perceived unique characteristics of national markets.

Multiple factor indices. A measure of potential demand indirectly using, as proxies, variables that either intuition or statistical analysis suggest can be closely correlated with the potential demand for the product under view.

Nationalism. The assertion of indigenous culture by an individual, organisation or country.

Non tariff barriers. Measures, public or private that cause intentionally traded goods or services to be allocated in such a way as to reduce potential real world income.

Option. A bilateral contract giving its holder the right, but not the obligation to buy or sell a specified asset at a specific price, at or up to, a specific date.

Passive exporter. An organisation which awaits orders or comes across them by choice.

Penetration price. The charging of a low price in order to gain volume sales conducted under conditions of little product uniqueness and elastic demand patterns.

Physical distribution. The act and functions of physically distributing goods and services including the elements of transport, warehousing and order processing.

Polycentrism. A host country orientation on a subsidiary basis.

Price ceiling. The maximum price which can be charged bearing in mind competition and what the market can bear.

Price escalation. The difference between the domestic price and the target price in foreign markets due to the application of duties, dealer margins and/or other transaction costs.

Price floor. The minimum price which can be charged bounded by product cost.

Primary data. Unpublished data from individuals or organisations.

Product organisation. A form of international organisational structure whereby executives in functional areas are given global responsibility.

Product strategy. A set of decisions regarding alternatives to the target market and

the marketing mix given a set of market conditions.

Product. A good or service offered by an organisation which affords a bundle of benefits both objective (physical) and subjective (image) to a user.

Promotion. The offer of an inducement to purchase, over and above the intrinsic value or price of a good service.

Purchasing power parity. The rate at which one unit of currency will purchase the same amount of goods and services as it bought in an equilibrium period, despite differential rates of inflation.

Quota. A specific imported amount imposed by one country on another, when once filled cannot be exceeded within a given time. When a quota is in force the price mechanism is not allowed to operate.

Regiocentrism. A regional market orientation with world market strategies.

Regression analysis. The selection of an independent variable which accounts for the most variance in a dependent variable.

Retailer. A channel institution which acts as an intermediary between other channel institutions and the end user and who usually breaks bulk, charging a margin for its services.

Revaluation. The increase in the value of one currency vis a vis other currencies.

Search. The collection of relevant information by deliberate searching either formally or informally.

Secondary data. Published accessible data from a variety of sources.

Self reference criterion. Perceptual distortion brought about by an individual's own cultural experience.

Skimming price. The charging of a high price in order to gain maximum revenue conducted under conditions of product uniqueness and inelastic demand patterns.

Sourcing. A decision to have certain components in the value chain manufactured out of the country. Often called the "make or buy" decision.

Standardisation. Same goods or services marketed in either product, distribution or advertising form, unchanged in any country.

Standardised plans. A uniform planning system applied globally, based on economics of scale and consumer uniformity.

Strategic business unit. A self contained grouping of organisations, products or technologies which serve an identified market and competes with identified competitors.

Surveillance. The collection of relevant information which crosses an individual's scanning attention field.

Tariff. An instrument of terms of access normally the imposition of a single or multiple excise rate on a imported good.

Terms of access. The conditions imposed by one country which apply to the importation of goods from another country.

The World Bank. Known also as the International Bank for Reconstruction and

Development (IBRD). A bank, with world wide country membership, (United nations) which provides long term capital to and economic development.

Transfer pricing. The price at which goods or services are transferred between one country and another within the same organisation.

Wholesaler. A channel institution which purchases and sells in bulk from either original suppliers and/or other channel intermediaries, charging a margin for its services.

Subject appendices - Global agriculture marketing management

[Annex 1](#)

[Annex 2](#)

Annex 3 (statistical bales of 480 lbs net)

Growing areas	Planting period	Harvesting period	Production in 1'000 bales				
			84/85	85/86	86/87	87/88	88/89*
1	Mar-Apr	Sep-Jan	3,000	2,700	1,700	2,400	2,800
2	Feb-Apr	Aug-Nov	300	100	-	200	300
3	Jan-Apr	Jul-Dec	2,500	1,400	700	2,100	2,300
4	Nov-Dec	Jun-Aug	700	400	100	500	900
5	Mar-Apr	Oct-Dec	800	1,000	700	1,100	1,300
6	Mar-Apr	Sep-Dec	3,100	4,000	2,800	3,300	3,300
7	Jan-Apr	Jul-Sep	100	100	100	100	400
8	Mar-Apr	Oct-Dec	300	200	200	300	500
9	May-Jul	Nov-Jan	300	200	-	200	200
Total production			11,100	10,100	6,300	10,200	12,000
Local consumption			5,600	6,300	5,800	6,500	6,200

* Estimates.

The extended planting and harvesting periods are due to a great variety in climate and distances between the various growing areas. Some cotton is harvested as early as May and as late as February with this production mainly moving to domestic mills.

Most of the cotton grown in Latina is fully irrigated. Yields in such areas are around 2 bales per acre and more. Rain-grown or semi-irrigated areas yield less.

Latina normally produces a high grade crop with a staple length of 1.1/16" to 1.3/32". In the Juarez area Acala cotton of 1.5/32" and 1.3/16" staple is grown.

The bulk of Latina cotton is still hand-picked but machine-picking is on the increase. All cotton is saw-ginned.

Annex 4

CIF North Europe quotations for principal growths

Published and primed by COTLOOK LTD., Outlook House 458 New Chester Road, Rock Ferry, Birkenhead, Merseyside L42 2AE.

All November/December shipment except where otherwise stated quotations as at 3

November 1988. In US cents per lb.

Cotlook indices

Dual system

	1988/89		1989/90
'A' (Midd. 1-3/32")	58.40	+0.35	To be introduced early 1989
'B' ('Coarse Count')	53.35	Unch	

AMERICAN-TYPE COTTONS

	1988/89			
American (Std. Mic)				
Orleans/Texas Midd. 1-1/32"	57.50	0.75		
Orleans/Texas SLM 1-1/32"	56.00	0.25		
*Memphis Terr. Midd. 1-3/32"	64.50	0.75		
*Calif/Ariz. DPL Midd. 1-3/32"	67.50	0.50		
Call/Ariz.* SJV SM 1-1/8"	74.75	0.50		
Latina				
*Midd. 1-3/32"	60.25	0.75		
	(Dec/Jan)			
Central American				
*Midd. 1-3/32"	58.75	0.75		
Brazilian				
*Type 5/6. 1-1/16"	NQ	-		
	1987/88		1988/89	
			(Apr/May)	
Paraguayan				
*Midd. 1-3/32"	NQ	-	60.50	Unch
Argentina				
*Grade C-1/2. 1-1/16"	NQ	-	55.25	-0.25
	1988/89			
Turkish				
*Adana St. 1 White. 1-1/16" RG	52.00	-1.50		
*Izmir/Ant St. I White, 1-3/32" RG"	58.50	-1.00		
EEC Greek Midd. 1-3/32"	61.00	Unch		
Spanish Midd. 1-3/32"	61.50	Unch		
Russian				
*Vtoroi	58.50	1.00		
	(Dec/Jan).			
*Tretii	55.50	1.00		
	(Dec/Jan)			
Pakistan				
*Punjab SG 1505 1-3/32"	57.75	0.50		
*Sind/Punjab SG Afzal 1-1/32"	52.50	0.50		
Indian				
Hybrid-4, 1-3/32	NQ	-		

Shankar-6. 1-3/16	NQ	-		
	1988/89			
Chinese				
*Type 329	64.75	0.50		
-Type 527	NQ	-		
	(Jan/Feb)			
Tanzanian				
'AR' Manza No. 3	68.00	-0.50		
	(Jan/Feb)			
African 'Franc Zone'				
*Midd. 1-3/32"	58.50	0.50		
	1987/88		1988/89	
			(May/June)	
Australian				
*Midd. 1-3/32"	NQ	-	62.50	Unch

LONG-STAPLE COTTONS

	1987/88	
Egyptian (official basis)		
Giza 45 6000/FG	PRICES WITH DRAWN PERIODIC ANNOUNCEMENT OF INITIAL SELLING RATES FOR 1988/89 SEASON	
Giza 76 6000/FG		
Giza 70 6000/FG		
Giza 77 6000/FG		
Giza 69/75/61 6000/FG		
	1987/88	
Sudan		
Barakat Grade X4B	114.00	Unch
Shambat-8 Grade 3SH RG	67.00	Unch
	1987/88	
Peruvian		
Tanguis Grade 3-1/2"	74.00	-1.00
	1988/89	
Pima Gr.1. 1-9/16"	NQ	-
	(Jan/Feb)	
American		
Pima Grade 3, 1-7/16"	162.00	2.00
Indian		
DCH-32. 1-7/16	NQ	-
Russian		
Pervyl 39/40	132.00	1.00

N - Nominal

NQ - Not Quoted

* 'A' Index is average of cheapest 5 of 11 styles so marked, taking nearer shipment when two are quoted.

• 'B' Index is average of cheapest 3 of 7 styles so marked, taking nearer shipment when two are quoted.

Quotations for Shouthern belt cottons (as identified is the Cotlook Production Estimate) will not be considered for index purposes before January 1.

CIF North Europe Quotations for Raw Cotton: The Cotlook quotations are set by the editorial staff, who have no trading involvement of any kind, to indicate the competitive level of offering prices. They are CIF, cash against documents on arrival of vessel, including profit and agent's commission. During the compilation of our reports, we collect offering prices from many sources. Our assessment of them is inevitably a somewhat subjective process, not unaffected by our understanding of the latest developments at origin and by a 'Liverpool' conceit of quality. It will be appreciated that when a growth is selling freely our price indication will be very closely in line with trading levels, but that will would usually expect to succeed with bind that were slightly lower. Our prices are therefore emphatically not the levels at which a seller is guaranteed to conclude business. There are occasions when the most competitive offer of a particular growth is share prevailing values for cotton generally. It is for this reason that our indices are calculated from the cheaper element of the prices in the selection. When cotton of a particular growth is set offered in volume, we indicate that fact by designating the price 'Nominal'.

Annex 5

Cotlook Indices

	Raw cotton		Yarn
	'A' index (Mid. 1-3732")	'B' index (Coarse Count')	100% cotton (20's/30's)
	CIFN. Europe US cents per lb		FOB values July '82 = 100
			This week:
Thurs (Nov 3)	58.40	53.35	
Wed (Nov 2)	58.15	53.10	
Tues (Nov 1)	58.30	53.35	111.34
Mon (Oct 31)	58.30	53.35	
Fri (Oct 28)	58.35	53.65	
Week ago (Oct 27)	58.05	53.35	111.17
Month ago (Oct 3)	56.40	52.10	110.20
Year ago (Nov 3)	75.30	71.25	132.94

Annex 6

Polyester fibre prices

The range of prices ruling in the six markets mentioned, for first quality fibre (1.7 decitex and 38 mm staple), compare below with the prices reported in November last year. They are expressed in terms of the respective domestic currencies per *kilo*. However, for the purpose of comparison with prevailing raw cotton prices, the US cent equivalent per *lb* (calculated on the day of quotation for the five markets other than the

		November 1987		<i>This week</i>	
United States	\$	1.49/1.54	(69.0)	1.52/1.61	(71.0)
China (Taiwan Province)	NT \$	34/35	(52.5)	45/46	(73.0)
Japan	Yen	210/250	(77.5)	200/230	(77.5)
United Kingdom	£	95/1.05	(81.0)	1.00/1.10	(84.5)
Fed. Rep. of Germany	DM	2.80/3.00	(79.5)	3.15/3.50	(84.5)
Italy	Lire	2100/2300	(82.0)	2420	(83.0)

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I_N_D_O_N_E_S_I_A_'_S_PTJ Sandang 2 booked around 6,00 B of US styles from offers received at recent lender and also took up around 200T Chinese high grades from domestically-held stocks... S_I_N_G_A_P_O_R_E/M_A_L_A_Y_S_I_A_subdued and enquiry H_O_N_G_K_O_N_G_and_____of mainly tentative nature... Limited demand in evidence _____centered mainly on US descriptions, including Pima... J A P A N on holiday.

Cotlook 88/89 B: 53.35 (UP 25) Comp. Adana 52.00, PakN/A 52.50, Tretii 55.50.

New York cotton futures market

December	56.14
March	56.45
May	56.63

July	56.63
October	55.90
December	56.10

Source: Liverpool Cotton Services Limited.



**Annex 9****3rd November 1988 New York Cotton Exchange's cotton options****COTTON OPTIONS DAILY MARKET REPORT**

COTTON NO. 2 CALLS THURSDAY NOVEMBER 3, 1998
SETTLEMENT PRICE VOLUME OPEN CHANGE INTEREST

MONTH	STRIKE PRICE	EXPIRATION DATE	HIGH	LOW	CLOSE	11/03	11/02	11/02	11/02	11/01	EXER
Dec 88	40.60	11/5/88	-	-	-	-	-	-	-	-	-
Dec 88	40.60	11/5/88	-	-	-	-	11.14	-	-	-	-
Dec 88	46.00	11/5/88	-	-	-	-	-	-	-	-	-
Dec 88	47.00	11/5/88	-	-	-	-	-	-	-	-	-
Dec 88	48.00	11/5/88	-	-	-	-	-	-	-	-	-
Dec 88	49.00	11/5/88	-	-	-	-	-	-	-	-	-
Dec 88	50.00	11/5/83	-	-	6.21N	6.21	6.14	-	63	-	-
Dec 88	51.00	11/5/58	-	-	5.21N	5.21	5.14	1	53	-6*	5
Dec 88	52.00	11/5/88	4.60	4.60	4.21N	4.21	4.14	-	169	-22*	21
Dec 88	53.00	11/5/88	-	-	3.21N	3.21	3.14	-	446	-14*	-
Dec 88	54.00	11/5/88	2.75	2.00	2.21N	2.21	2.15	12	564	-6	2
Dec 88	55.00	11/5/88	1.80	.85	1.30N	1.30	1.30	87	451	-37	-
Dec 88	55.00	11/5/88	1.00	.28	.50N	.50	.57	82	996	-41	-
Dec 88	57.00	11/5/88	.50	.09	.10N	.10	.23	4	313	-55*	-
Dec 88	58.00	11/5/83	.08	.05	.02N	.02	.05	58	433	-106	-
Dec 88	59.00	11/5/58	.01	.01	.01N	.01	.03	-	217	-	-
Dec 88	60.00	11/5/88	-	-	.01N	.01	.01	-	1,023	-	-
Dec 88	61.00	11/5/88	-	-	.01N	.01	.01	-	76	-	-
Dec 88	62.00	11/5/88	-	-	.01N	.01	.01	-	413	-	-
Dec 88	63.00	11/5/88	-	-	.01N	.01	.01	-	216	-	-
Dec 88	64.00	11/5/88	-	-	.01N	.01	.01	-	668	-	-
Dec 88	63.00	11/5/88	-	-	.01N	.01	.01	-	162	-	-
Dec 88	66.00	11/5/83	-	-	.01N	.01	.01	-	667	-	-
Dec 88	67.00	11/5/58	-	-	.01N	.01	.01	-	263	-	-
Dec 88	68.00	11/5/88	-	-	.01N	.01	.01	-	614	-	-
Dec 88	69.00	11/5/88	-	-	.01N	.01	.01	-	92	-	-
Dec 88	70.00	11/5/88	-	-	.01N	.01	.01	-	1,678	-	-
Dec 88	72.00	11/5/83	-	-	.01N	.01	.01	-	292	-	-
Dec 88	74.00	11/5/58	-	-	.01N	.01	.01	-	39	-	-
Mar 89	45.00	2/4/89	-	-	-	-	-	-	-	-	-

Mar 89	46.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	47.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	48.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	49.00	2/4/89	-	-	7.80N	7.80	7.70	-	33	-	-
Mar 89	50.00	2/4/89	-	-	6.95N	6.95	6.90	-	456	-	-
Mar 89	51.00	2/4/89	-	-	6.10N	6.10	6.05	-	213	-	-
Mar 89	52.00	2/4/89	-	-	5.35N	5.35	5.35	1	542	+1	-
Mar 89	53.00	2/4/89	-	-	4.65N	4.65	4.60	-	172	-	-
Mar 89	54.00	2/4/89	3.80	3.80	4.05N	4.09	4.00	12	1,148	-12	-
Mar 89	55.00	2/4/89	3.70	3.70	3.45N	3.45	3.45	10	240	-	-
Mar 89	56.00	2/4/89	2.50	2.60	2.90N	2.90	2.85	71	413	-12	-
Mar 89	57.00	2/4/89	2.25	2.20	2.35N	2.35	2.40	132	775	-20	-
Mar 89	56.00	2/4/89	-	-	2.00N	2.90	1.95	43	162	-18	-
Mar 89	59.00	2/4/89	-	-	1.65N	1.65	1.60	-	195	-	-
Mar 89	60.00	2/4/89	-	-	1.30N	1.30	1.25	55	198	+35	-
Mar 89	61.00	2/4/89	1.00	1.00	1.10N	1.10	1.05	-	3	-	-
Mar 89	62.00	2/4/89	.85	.85	.90N	.90	.85	-	31	-	-
Mar 89	63.00	2/4/89	-	-	.70N	.70	.67	10	56	-5	-
Mar 89	64.00	2/4/89	-	-	.55N	.55	.52	12	144	22	-
Mar 89	65.00	2/4/89	-	-	.40N	.40	.40	-	15	-	-
Mar 89	66.00	2/4/89	-	-	.30N	.30	.30	-	33	-	-
Mar 89	67.00	2/4/89	-	-	.25N	.25	.25	-	-	-	-
Mar 89	68.00	2/4/89	-	-	.20N	.20	.20	-	-	-	-
Mar 89	69.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	70.00	2/4/89	-	-	.10N	.10	.10	5	-	-	-
Mar 89	72.00	2/4/89	-	-	.05N	.05	.05	-	-	-	-
May 89	46.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	47.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	48.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	49.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	50.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	51.00	4/8/89	-	-	6.50N	6.50	6.50	-	-	5	-
May 89	52.00	4/8/89	-	-	5.80N	5.80	5.75	-	-	17	-
May 89	53.00	4/8/89	-	-	5.10N	5.10	5.10	-	-	21	-
May 89	54.00	4/8/89	-	-	4.50N	4.50	4.50	-	-	15	-
May 89	55.00	4/8/89	-	-	3.95N	3.95	3.90	-	-	100	-
May 89	56.00	4/8/89	-	-	4.45N	4.45	3.40	-	-	32	-
May 89	57.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	58.00	4/8/89	-	-	2.60N	2.60	2.50	-	-	1	-
May 89	59.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	60.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	62.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	64.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	65.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	66.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	68.00	4/8/89	-	-	.40N	.40	.40	-	-	5	-

May 89	70.00	4/8/89	-	-	-	-	-	-	-	-	-
Jul 89	46.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	48.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	50.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	52.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	54.00	6/3/89	-	-	5.00N	5.00	5.00	-	-	40	-
Jul 89	56.00	6/3/89	4.00	4.00	4.45N	4.45	3.90	-	-	18	-
Jul 89	55.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	60.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	62.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	65.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	70.00	6/3/89	-	-	-	-	-	-	-	-	-
Oct 89	46.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	48.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	50.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	52.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	54.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	56.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	58.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	60.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	62.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	65.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	70.00	9/2/89	-	-	-	-	-	-	-	-	-
Dec 89	46.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	48.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	50.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	52.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	54.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	56.00	11/4/89	-	-	5.10N	5.10	5.05	-	2	-	-
Dec 89	58.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	60.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	62.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	65.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	70.00	11/4/89	-	-	-	-	-	-	-	-	-
Mar 90	48.00	2/3/90	-	-	-	-	-	-	-	-	-
Mar 90	50.00	2/3/90	-	-	-	-	-	-	-	-	-
Mar 90	52.00	2/3/90	-	-	-	-	-	-	-	-	-
Mar 90	54.00	2/3/90	-	-	-	-	-	-	-	-	-
Mar 90	56.00	2/3/90	-	-	-	-	-	-	-	-	-
Mar 90	59.00	2/3/90	-	-	-	-	-	-	-	-	-
Mar 90	60.00	2/3/90	-	-	-	-	-	-	-	-	-
Mar 90	62.00	2/3/90	-	-	-	-	-	-	-	-	-
TOTAL ESTIMATED VOLUME - 500								595	15,054	-316	28

* Adjustment by reporting firm.



Title: Global agricultural marketing management. (Marketing and Agribusiness
Texts - ...COTTON NO. 2 PUTS THURSDAY NOVEMBER 3, 1998 SETTLEMENT
PRICE VOLUME OPEN CHANGE INTEREST

MONTH	STRIKE PRICE	EXPIRATION DATE	HIGH	LOW	CLOSE	11/03	11/02	11/02	11/02	11/01	EXER
Dec 88	40.00	11/5/88	-	-	-	-	-	-	-	-	-
Dec 88	45.00	11/5/88	-	-	.01N	.01	.01	-	449	-10*	-
Dec 88	46.00	11/5/88	-	-	.01N	.01	.01	-	62	-	-
Dec 88	47.00	11/5/88	-	-	.01N	.01	.01	-	23	-	-
Dec 88	48.00	11/5/83	-	-	.01N	.01	.01	-	134	-	-
Dec 88	49.00	11/5/83	-	-	.01N	.01	.01	-	101	-	-
Dec 88	50.00	11/5/88	-	-	.01N	.01	.01	5	631	-5	-
Dec 88	51.00	11/5/83	-	-	.01N	.01	.01	-	136	-7*	-
Dec 88	52.00	11/5/88	-	-	.01N	.01	.01	-	619	-3*	-
Dec 88	53.00	11/5/88	.01	.01	.01N	.01	.01	2	427	-	-
Dec 88	54.00	11/5/88	.01	.01	.01T	.01	.02	10	417	+7	-
Dec 88	55.00	11/5/88	.20	.05	.10N	.10	.15	63	197	+38	-
Dec 88	56.00	11/5/88	.50	.30	.31N	.31	.43	55	506	-38	-
Dec 88	57.00	11/5/83	-	-	-	-	-	-	-	-	-
Dec 88	58.00	11/5/83	1.40	1.40	1.80N	1.80	1.90	1	257	-1	-
Dec 88	59.00	11/5/88	-	-	2.80N	2.80	2.85	-	26	-	-
Dec 88	60.00	11/5/83	4.15	3.65	3.80N	3.80	3.85	-	173	-	-
Dec 88	61.00	11/5/88	-	-	4.80N	4.80	4.85	-	66	-	-
Dec 88	62.00	11/5/88	-	-	5.80N	5.80	5.85	-	124	-59*	59
Dec 88	63.00	11/5/88	-	-	6.80N	6.80	6.85	-	15	-	-
Dec 88	64.00	11/5/88	-	-	7.80N	7.80	7.85	-	62	-75*	75
Dec 88	65.00	11/5/88	-	-	8.80N	8.80	8.85	-	56	-15*	15
Dec 88	66.00	11/5/83	-	-	9.80N	9.80	9.85	-	64	-10	10
Dec 88	67.00	11/5/83	-	-	10.80N	10.80	10.85	-	4	-	-
Dec 88	68.00	11/5/88	-	-	11.80N	11.80	11.85	-	16	-	-
Dec 88	69.00	11/5/83	-	-	-	-	-	-	-	-	-
Dec 88	70.00	11/5/88	-	-	-	-	-	-	-	-	-
Dec 88	72.00	11/5/83	-	-	-	-	-	-	-	-	-
Dec 88	74.00	11/5/88	-	-	-	-	-	-	-	-	-
Mar 89	43.00	2/4/89	-	-	.01N	.10	.10	-	48	-	-
Mar 89	46.00	2/4/89	-	-	.15N	.15	.15	-	7	-	-
Mar 89	47.00	2/4/89	-	-	.20N	.20	.20	-	71	-	-
Mar 89	48.00	2/4/89	.35	.35	.30N	.30	.32	25	97	-	-
Mar 89	49.00	2/4/89	-	-	.40N	.40	.40	-	175	-	-

Mar 89	50.00	2/4/89	-	-	.55N	.55	.55	-	784	-	-
Mar 89	51.00	2/4/89	.80	.75	.70N	.70	.70	1	413	-1*	-
Mar 89	52.00	2/4/89	.90	.85	.95N	.95	.95	-	224	-1*	-
Mar 89	53.00	2/4/89	-	-	1.20N	1.20	1.20	-	364	-1*	-
Mar 89	54.00	2/4/89	-	-	1.55N	1.55	1.55	5	171	+4	-
Mar 89	55.00	2/4/89	2.10	2.10	1.95N	1.95	2.00	13	195	+11	-
Mar 89	56.00	2/4/89	2.60	2.25	2.40N	2.40	2.40	-	118	-	-
Mar 89	57.00	2/4/89	3.10	3.10	2.85N	2.85	2.95	-	41	-	-
Mar 89	58.00	2/4/89	3.20	3.20	3.50N	3.50	3.50	-	22	-	-
Mar 89	59.00	2/4/89	-	-	4.15N	4.15	4.20	-	5	-	-
Mar 89	60.00	2/4/89	-	-	4.80N	4.80	4.85	-	15	-	-
Mar 89	61.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	62.00	2/4/89	-	-	6.30N	6.30	6.35	-	21	-	-
Mar 89	63.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	64.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	65.00	2/4/89	-	-	8.80N	8.80	8.85	-	124	-	-
Mar 89	66.00	2/4/89	-	-	9.70N	9.70	9.70	-	10	-	-
Mar 89	67.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	68.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	69.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	70.00	2/4/89	-	-	-	-	-	-	-	-	-
Mar 89	72.00	2/4/89	-	-	-	-	-	-	-	-	-
May 89	46.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	47.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	48.00	4/8/89	-	-	.45N	.45	.45	-	1	-	-
May 89	49.00	4/8/89	-	-	.60N	.60	.65	-	26	-	-
May 89	50.00	4/8/69	-	-	-	-	-	-	-	-	-
May 89	51.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	52.00	4/8/89	-	-	1.30N	1.30	1.15	-	8	-	-
May 89	53.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	54.00	4/8/89	-	-	2.00N	2.00	2.00	-	97	-	-
May 89	55.00	4/8/89	-	-	2.40N	2.40	2.30	11	246	-	-
May 89	56.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	57.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	58.00	4/8/89	-	-	3.90N	3.90	3.90	-	7	-	-
May 89	59.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	60.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	62.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	64.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	65.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	66.00	4/8/89	-	-	-	-	-	-	-	-	-
May 89	68.00	4/8/89	-	-	11.65N	11.65	11.70	-	5	-	-
May 89	70.00	4/8/89	-	-	-	-	-	-	-	-	-
Jul 89	46.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	48.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	50.00	6/3/89	-	-	1.10N	1.10	1.25	-	10	-	-

Jul 89	52.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	54.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	56.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	58.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	60.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	62.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	65.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	70.00	6/3/89	-	-	-	-	-	-	-	-	-
Jul 89	46.00	9/2/89	-	-	-	-	-	-	-	-	-
Jul 89	48.00	9/2/89	-	-	-	-	-	-	-	-	-
Jul 89	50.00	9/2/89	-	-	-	-	-	-	-	-	-
Jul 89	52.00	9/2/29	-	-	-	-	-	-	-	-	-
Oct 89	54.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	56.00	9/2/89	-	-	-	-	-	-	-	-	-
Oct 89	58.00	9/2/89	-	-	-	-	-	-	-	-	-
Dec 89	60.00	9/2/89	-	-	-	-	-	-	-	-	-
Dec 89	62.00	9/2/89	-	-	-	-	-	-	-	-	-
Dec 89	65.00	9/2/89	-	-	-	-	-	-	-	-	-
Dec 89	70.00	9/2/89	-	-	-	-	-	-	-	-	-
Dec 89	46.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	48.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	50.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	52.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	54.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	56.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	58.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	60.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	62.00	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	65.50	11/4/89	-	-	-	-	-	-	-	-	-
Dec 89	70.00	11/4/89	-	-	-	-	-	-	-	-	-
Jan 90	48.00	2/3/90	-	-	-	-	-	-	-	-	-
Jan 90	50.00	2/3/90	-	-	-	-	-	-	-	-	-
Jan 90	52.00	2/3/90	-	-	-	-	-	-	-	-	-
Jan 90	54.00	2/3/90	-	-	-	-	-	-	-	-	-
Jan 90	56.00	2/3/90	-	-	-	-	-	-	-	-	-
Jan 90	58.00	2/3/90	-	-	-	-	-	-	-	-	-
Jan 90	60.00	2/3/90	-	-	-	-	-	-	-	-	-
TOTAL ESTIMATED VOLUME - 400			*Adjustment by recording firm						191	7,870	-155
FUTURES SETTLEMENT		Dec 88	56.21	Mar 89	56.50	May 89	56.57	Jul 89	56.70	-	-
		Oct 89	56.00	Dec 89	56.20	Mar 90	56.70	-	-	-	-





Technical note: A short introduction to exchange traded options*

* Lecture outline presented by W. Staub. International Futures and Commodities Institute (IFCI).

What is an option?

An option is a bilateral contract giving its holder the right, but not the obligation to buy (sell)

- a specified asset
- at a specified price
- at or up to a specified date.

Terminology

The *underlying asset* is the commodity or financial instrument that can be bought or sold using the option.

The *exercise price* is the price at which the underlying asset can be bought or sold by exercising the option.

The *expiration date* determines the time during which the option can be exercised.

Exchange traded option contracts are standardized in terms of

- Contract volume.
- Expiration dates (mostly up to six months or one year, options with life spans of more than one year are rarely available).
- Exercise prices (usually at least 3 are available for a given expiration date).
- Delivery/settlement procedures (clearing house).

Options positions

Option holder	Option writer
Pays the premium	Receives the premium
Has the right, but not the obligation, to exercise the option	Has the obligation to deliver (take delivery of) the underlying asset if the option holder chooses to exercise.

Call and put

There are *two types* of options:

- Options giving their holder the right to buy (*call*)

- Options giving their holder the right to sell (*put*)

Buying and writing calls

Call buyer pays the premium and obtains the right, but not the obligation to buy the underlying asset at the exercise price until the expiration date



Call writer receives the premium and takes the obligation to deliver the underlying asset against payment of the exercise price if the call holder decides to exercise.

Buying and writing puts

Put buyer pays the premium and obtains the right, but not the obligation to sell the underlying asset at the exercise price until the expiration date.



Put writer receives the premium and takes the obligation to take delivery of the underlying asset and pay the exercise price if the call holder decides to exercise.

Option type, class and series

- There are two *types* of options: calls and puts.
- Two options belong to the same *class* if they have the same underlying asset and are of the same type. Example: a call Jul 420 Gold Call and a Sept 400 Gold Call belong to the same class.
- Two options belong to the same *series* if they have the same underlying asset, the same exercise price, the same expiration date and are of the same style (in other words, if they are identical).

American and European options

A *European* option can only be exercised by its holder at (or during a short period before) the expiration date.

Date of purchase European option Expiration date



Exercise day

An *American* option can be exercised by its holder at any time up to the expiration date.

Date of American option Expiration date

Exercise period

The four basic options positions

Depending on his view of the market, the investor can choose among four basic options positions

By buying a call:	By buying a put:
Long call	Long put
By making a short sale of a call:	By making a short sale of a put:
Short call	Short put

Terminology:

- To *write* an option: establish a short options position
- Option writer: person who has (establishes) a short options position.

Offsetting an options position before expiration

Long call ... through the sale of an identical call	Long put ... through the sale of an identical put
Short call ... by buying an identical call	Short put ... by buying an identical put

"Identical" is to say: - same options exchange

- same underlying asset
- same exercise price
- same expiration date (i.e. same options series)

Example

2 July:

Sale of 2 Gold Sep 400 Calls for a premium of \$20

⇒ Short position of 2 Gold Sep 400 Calls

20 July:

Purchase of 2 Gold Sep 400 Calls for a premium of \$15

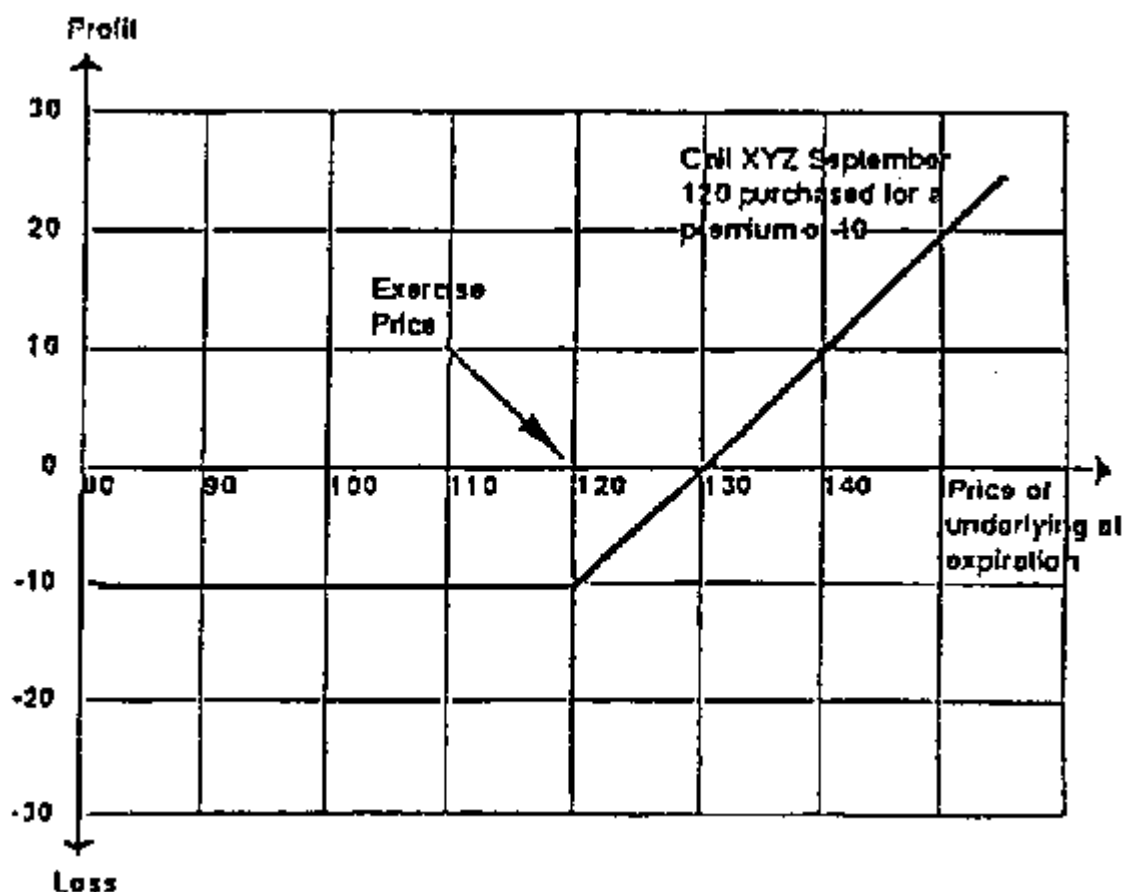
⇒ No obligation (position closed), profit of $2 \times 100 \times \$20 = \400

Drawing a profit/loss diagram

Objective:

Supposing that the position is kept up to the expiration date, represent profit/loss for all prices of the underlying at expiration.

Profit/loss diagram for a long call



[Profit/loss diagram for a short call](#)

[Profit/loss diagram for a long put](#)

[Profit/loss diagram for a short put](#)

[Summary - The four basic options positions](#)

Characteristics of basic options positions

Expectations regarding the future price of the underlying:

	Futures	Call options	Put options
Bearish	"Short"	"Short"	Long
Bullish	Long	Long	"Short"

Profit and loss potential:

	Long call	Short call	Long put	Short put
Profit potential	Unlimited	Limited	Practically unlimited*	Limited
Loss potential	Limited	Unlimited	Limited	Practically unlimited*

* In the case of the put we use the expression "practically unlimited" because the price of the underlying cannot fall below zero, which means that the profit/loss potential is limited although substantial.

Components of the option premium

Option premium = intrinsic value + time value

Time value

The intrinsic value of an option is the profit the option holder would make if he decided to exercise his option immediately. It is always positive.

Call intrinsic value = Price of underlying - Exercise price (If the figure is positive. Should it be negative, the intrinsic value is equal to zero.)

Put intrinsic value = Exercise price - Price of underlying (If the figure is positive. Should it be negative, the intrinsic value is equal to zero.)

In-the-money

At-the-money

Out-of-the-money

An option is **in-the-money** if it has intrinsic value.

An **option is at-the-money** if the exercise price is equal to the price of the underlying. Intrinsic value is equal to zero.

An option is **out-of-the-money** if

(for a call) the exercise price is higher than the price of the underlying;
(for a put) the exercise price is lower than the price of the underlying.

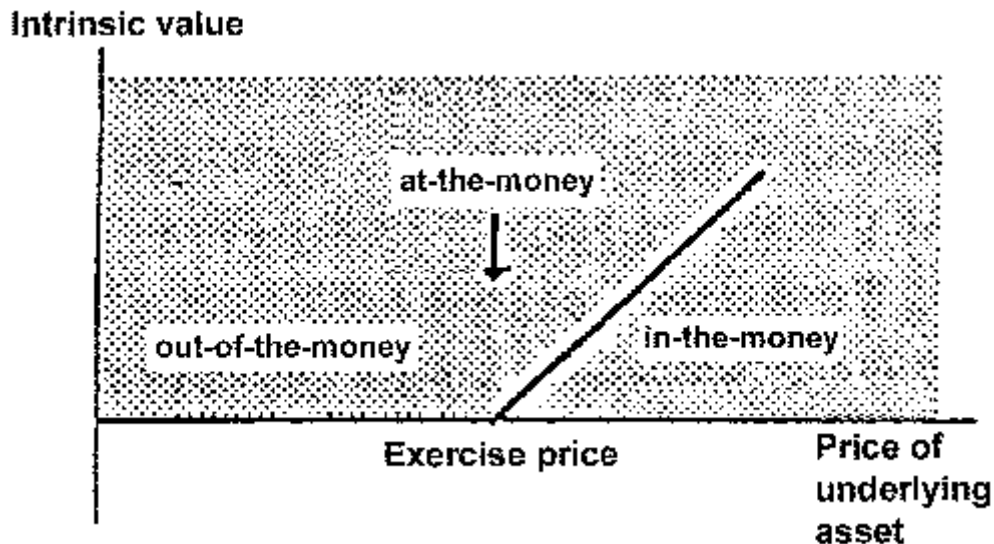
	Price of underlying lower than exercise price	Price of underlying equal to exercise price	Price of underlying higher than exercise price
Call	out-of-the-money	at-the-money	in-the-money
Put	in-the-money	at-the-money	out-of-the-money

In-the-money

At-the-money

Out-of-the-money

CALL

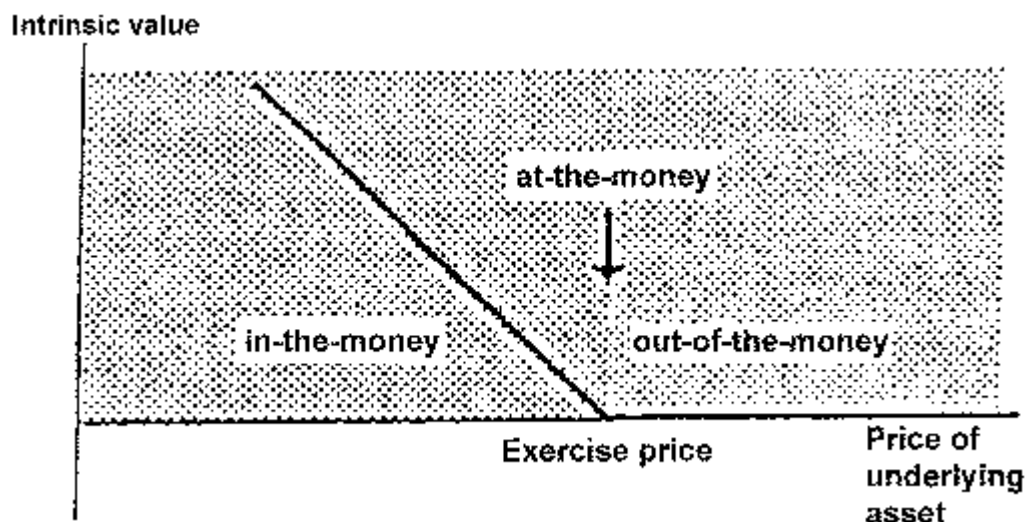


In-the-money

At-the-money

Out-of-the-money

Put



Time value

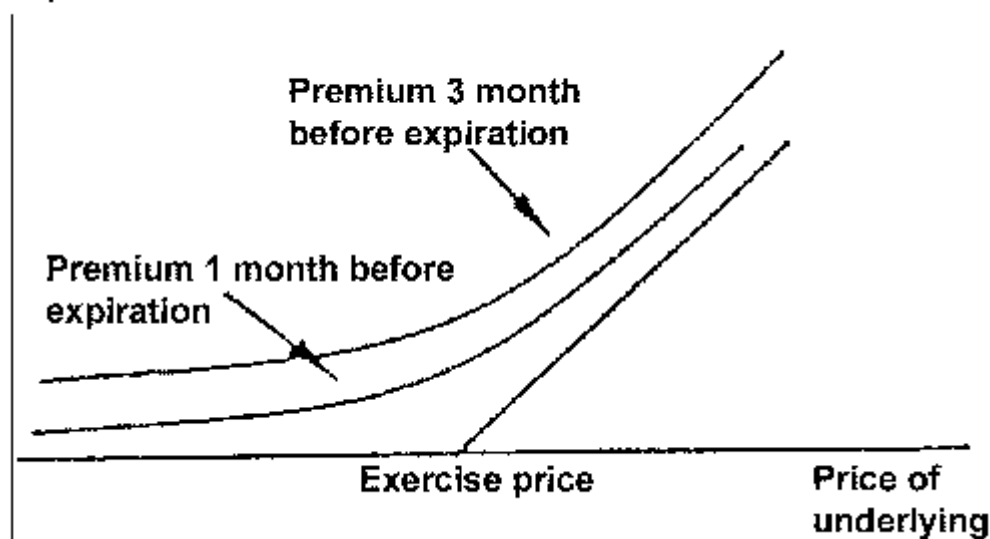
$$\text{Option price} - \text{Intrinsic value} = \text{Time value}$$

At expiration, the time value is necessarily equal to zero, i.e. the premium equals the option's intrinsic value.

The longer the time to expiration, the higher the time value. However, time is not the only factor affecting the time value of an option.

Time value

Option premium



Factors influencing the option premium

- 1 - Time
- 2 - The price of the underlying asset
- 3 - The exercise price of the option
- 4 - Price volatility of the underlying asset
- 5 - Dividends/Yield
- 6 - The interest rate

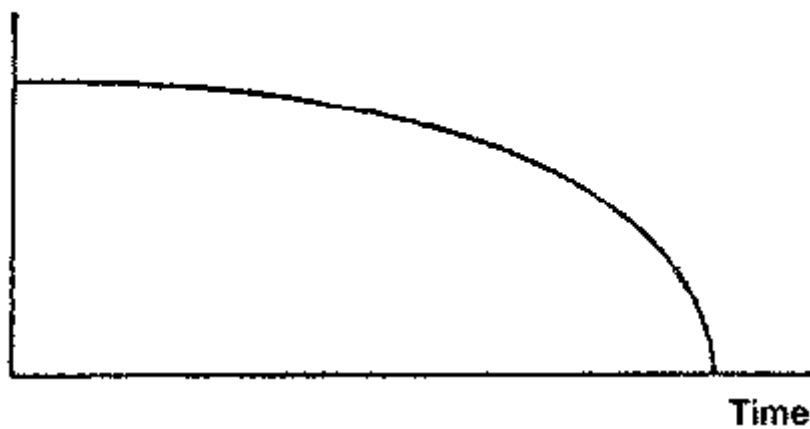
Time

All other factors remaining equal, the value of an option is lower the closer the expiration date.

The loss of time value is faster as the expiration date approaches.

The price of underlying asset

Option
premium



Call

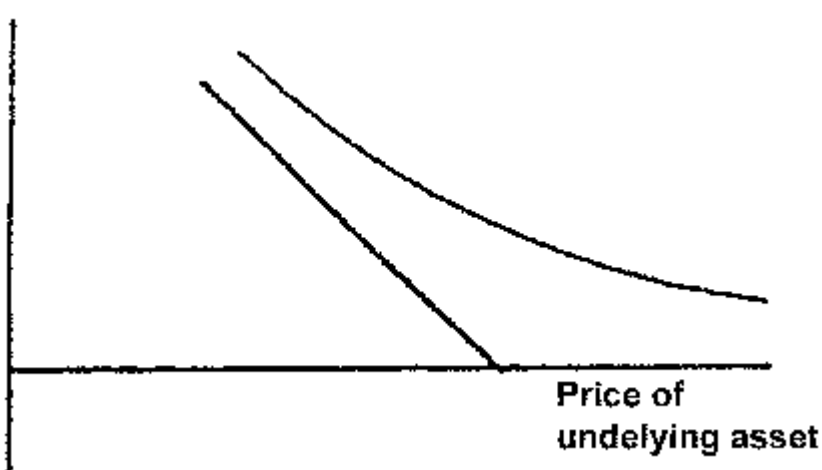
Premium



The higher the price of the underlying asset, the higher the option premium.

Put

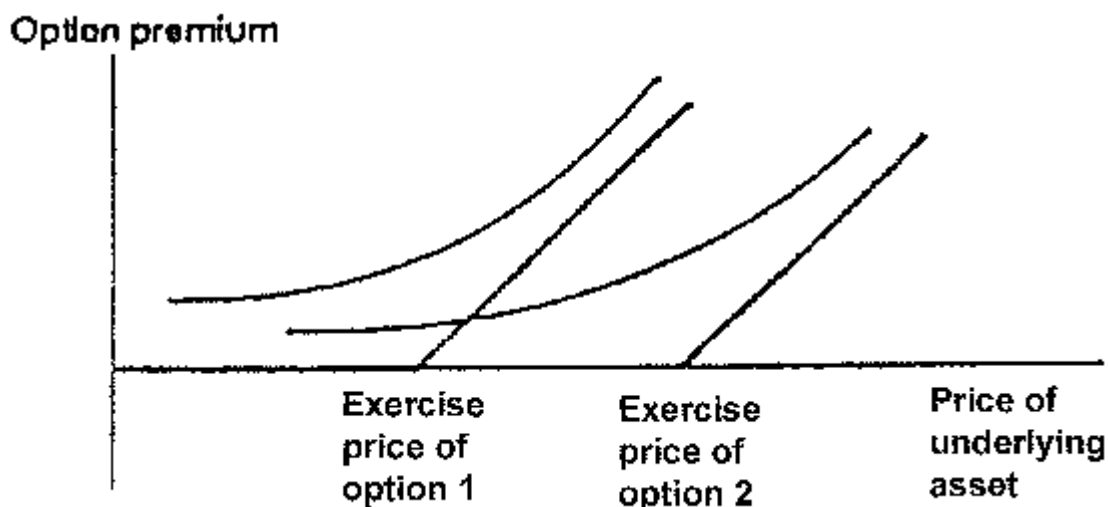
Premium



The higher the price of the underlying asset, the lower the option premium.

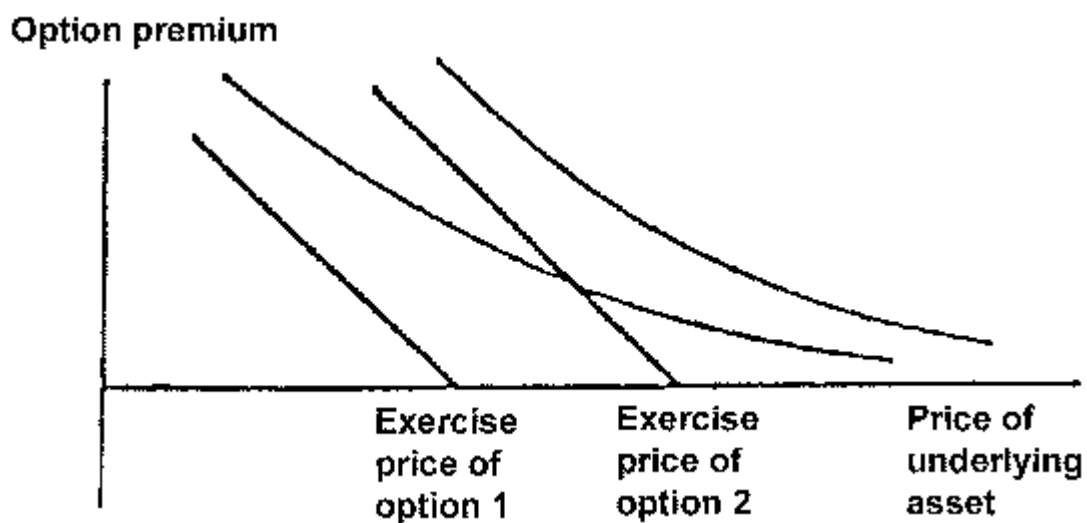
The more the options is in-the-money or out-of-the-money, the lower is its time value; i.e. the option premium is close to the intrinsic value of the option.

Exercise price - Call



Comparing two calls with the same underlying asset; the higher the exercise price of a call, the *lower* its premium.

Put

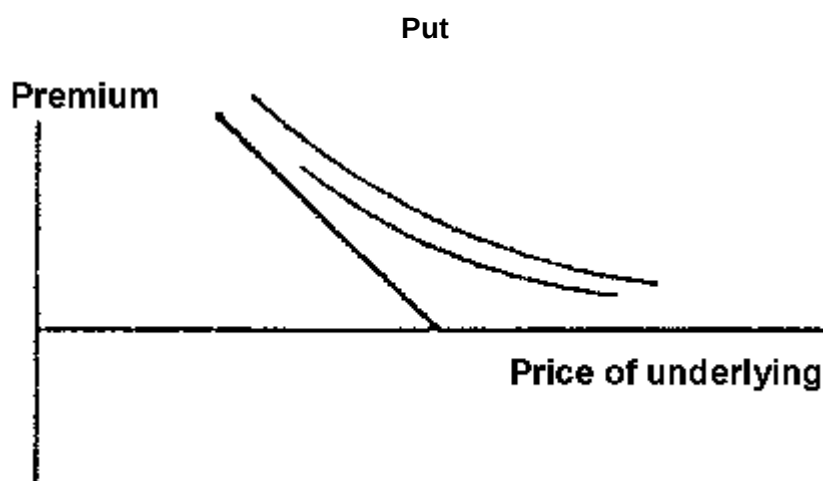
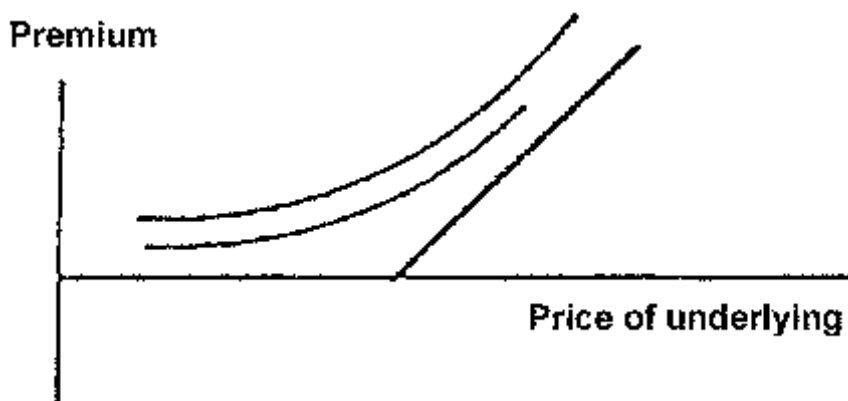


Comparing two puts with the same underlying asset; the higher the exercise price of a put, the *higher* its premium.

Volatility of the underlying asset

The higher the price volatility of the underlying asset, the higher the likelihood that the option will end up in-the-money; therefore, the higher the premium.

Call



Interest rate

The higher the "riskless interest rate", the higher the call premium.

The higher the "riskless interest rate", the lower the put premium.

(The impact of day-to-day interest rate fluctuation can be neglected for practical purposes.)

Summary - Factors affecting the option premium

	Call premium	Put premium
Longer time to expiration	+	+
Higher price of underlying	+	-
Higher volatility of underlying	+	+
Higher exercise price	-	+
Higher interest rate	+	-
Dividend	-	+

Examples of coffee, sugar and cotton options*

Source: *Futures and Options World*, Chicago, October 1988.

						Lifetime		Open
	Open	High	Low	Settle	Change	High	Low	Interest
COFFEE (CSCE) - 37,500 lbs.; cents per lb.								
Dec	126.25	127.0	125.86	126.98	+0.85	150.25	101.00	7,467
Mr 89	126.00	126.90	125.70	126.80	+0.62	150.50	112.44	8,684

May	125.43	125.95	125.40	125.77	-0.16	150.75	112.13	2.132
July	124.70	125.70	124.70	125.28	+0.52	145.00	114.00	1,275
Sept	...	...	...	125.13	+0.88	143.50	114.00	520
Dec	...	...	...	123.50	-1.51	129.25	118.00	105

Est vol 2,760; vol Tues 5,434; open int 20,183, -319.

						<i>Lifetime</i>		<i>Open</i>
	<i>Open</i>	<i>High</i>	<i>Low</i>	<i>Settle</i>	<i>Change</i>	<i>High</i>	<i>Low</i>	<i>Interest</i>
SUGAR - WORLD (CSCE) - 112,000 lbs.; cents per lb.								
Jan	...	...	...	9.90	+0.10	15.00	7.75	102
Mar	10.10	10.38	10.07	10.36	+0.25	14.39	7.66	73,216
May	9.83	10.12	9.81	10.12	+0.25	13.64	7.87	24,686
July	9.68	9.93	9.66	9.92	+0.21	13.40	8.10	6,678
Oct	9.54	9.79	9.53	9.79	+0.24	13.30	8.45	9,897
Mr 90	9.29	9.38	9.29	9.42	+0.17	9.70	8.75	259

Est vol 10,152; vol Tues 6,332; open int 114,852, -451.

						<i>Lifetime</i>		<i>Open</i>
	<i>Open</i>	<i>High</i>	<i>Low</i>	<i>Settle</i>	<i>Change</i>	<i>High</i>	<i>Low</i>	<i>Interest</i>
SUGAR - DOMESTIC (CSCE) - 112,000 lbs.; cents per lb.								
Ja 89	21.60	21.60	21.60	21.60	...	22.44	21.59	2,061
Mar	21.80	21.80	21.79	21.80	-0.01	22.50	21.75	1,952
May	...	...	...	21.97	-0.01	22.60	21.80	1,275
July	22.01	22.01	22.01	22.01	...	22.60	21.80	777
Sept	22.00	22.00	22.00	22.00	+0.01	22.60	21.95	1,130
Nov	...	...	...	21.81	-0.08	22.50	21.62	379

Est vol. 78; vol Tues 287; open int 7.574, +64.

						<i>Lifetime</i>		<i>Open</i>
	<i>Open</i>	<i>High</i>	<i>Low</i>	<i>Settle</i>	<i>Change</i>	<i>High</i>	<i>Low</i>	<i>Interest</i>
COTTON (CTN) - 50,000 lbs.; cents per lb.								
Dec	54.92	55.29	54.65	55.16	+0.20	70.20	48.65	12,475
Mr 89	55.35	55.80	55.16	55.75	+0.35	68.90	48.90	12,557
May	55.40	55.95	55.30	55.87	+0.27	68.70	49.03	3,452
July	55.65	56.10	55.46	55.85	+0.10	65.73	49.26	3,103
Oct	55.90	55.90	55.65	55.90	+0.45	65.50	50.35	902
Dec	55.80	56.15	55.62	56.07	+0.52	65.50	50.75	3,355

Est vol 5,000; vol Tues 5,051; open int 35,876, -698.

Examples of gold and silver futures options*

Source: *Futures and Options World*, Chicago, October 1988.

GOLD (EOE) - 10 troy ounces, dollars per troy ounce)

Strike	Calls - Last	Puts - Last
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Price	Nov	Feb	May	Nov	Feb	May
390	32.50	42.00	52.00	0.30	2.50	5.50
400	23.00	34.00	43.00	0.80	4.50	7.00
420	4.00	17.80	30.00	4.00	9.50	13.00
440	0.20	8.00	18.00	22.00	22.00	23.00
460	0.40	5.00	10.00	42.00	42.00	42.00
Call volume: 325 contracts				Call open interest: 21170		
Put volume: 35 contracts				Put open interest: 12489		

SILVER (EOE) - 250 troy ounces, cents per troy ounce)

Strike	Calls - Last			Puts - Last		
Price	Dec	Mar	Jun	Dec	Mar	Jun
550	110	125	140	5	10	10
600	60	75	100	10	20	25
650	30	55	65	35	45	50
700	14	30	50	75	75	80
750	12	25	40	125	125	130
Call volume: 0 contracts				Call open interest: 1939		
Put volume: 0 contracts				Put open interest: 934		

GOLD (CMX) 100 troy ounces; dollars per troy ounce

Strike	Calls - Last			Puts - Last		
Price	Dec-c	Feb-c	Apr-c	Dec-p	Feb-p	Apr-p
400	24.80	31.00	37.70	0.10	2.20	4.10
410	14.80	23.30	29.90	0.10	3.60	5.90
420	5.70	15.30	22.70	1.00	5.80	8.30
430	0.90	10.00	16.50	6.20	10.00	11.70
440	0.20	5.90	12.10	15.50	15.40	16.60
450	0.10	3.70	8.60	25.40	22.90	23.00
Est. vol. 4,000, Tues vol. 2,305 calls, 2,116 puts						
Open interest Tues; 67,608 calls, 50,952 puts						

SILVER (CMX) 5,000 troy ounces; cents per troy ounce

Strike	Calls - Last			Puts - Last		
Price	Dec-c	Mar-c	May-c	Dec-p	Mar-p	May-p
600	58.0	77.5	92.0	0.1	5.5	11.5
625	33.5	59.0	74.0	0.5	11.0	18.0
650	11.0	42.0	59.0	3.0	19.0	27.0
675	1.7	33.0	49.0	18.5	34.5	41.0
700	0.9	25.5	40.0	43.0	51.5	57.0
725	0.2	19.0	33.0	67.0	70.0	75.0
Est. vol. 3.000, Tues vol. 2.099 calls. 721 puts						
Open interest Tues; 49,406 calls, 15,620 puts						

Examples of futures and options quotations

FUTURES	size	tick size	months	hours	delivery
US Dollar Index	\$500 x index	\$ 5.00	Mar Jun Sep Dec	8.20-14.40	c
Ecu	Ecu 100,000	\$10.00	Mar Jun Sep Dec	8.20-14.40	p
Five Year US Treasury notes	\$100,000	\$15,625	Mar Jun Sep Dec	8.20-15.00	p
Cotton	50,000 lbs	\$ 5.00	Mar May Jul Oct Dec	10.30-15.00	p
Orange juice	15,000 lbs	\$ 7.50	Jan Mar May Jul Sep Nov	10.15-14.45	p
OPTIONS					
Cotton	50.000 lbs	\$ 5.00	Mar May Jul Oct Dec	10.30-15.00	f
Orange juice	15,000 lbs	\$ 7,50	Jan Mar May Jul Sep Nov	10.45-14.45	f
US Dollar Index	\$500 x index	\$ 5.00	Mar Jun Sep Dec	8.20-14.40	f
Five Year US Treasury notes	\$100,000	\$15,625	Mar Jun Sep Dec	8.20-15.00	f

All NYCE's financial contracts are traded on Finex, the exchange's financial instruments subsidiary.

Source: *New York Cotton Exchange*.





Futures and hedging trading in cotton *

* Paper adapted and presented by a staff member of the International Institute for Cotton, Liverpool. Original version written by Dr. Gordon Gemmill, City University of London, Business School.

1. Introduction

1.1 A FUTURE is a legally binding contract to deliver/take delivery on a specified date of a given quality and quantity of a commodity at an agreed price.

1.2 Futures trading began during the American Civil War. Prices for grain and cotton were very unstable. In 1865 the Chicago Board of Trade began collecting INITIAL MARGIN and VARIATION MARGIN to make sure that speculators fulfilled their obligations.

The initial margin is enough money, paid in advance, to cover one day's potential loss.

The variation margin is one day's actual loss (or gain), paid in arrears.

1.3 By 1867 there was a large market in Liverpool in "cargoes to arrive" and in 1869 the Cotton Brokers' Association had published rules for "contracts in cargoes to arrive". In 1876 a system of CLEARING was devised and the organization to do this was at first the Cotton Brokers' Bank (1878) and merged into the Liverpool Cotton Association in 1882.

1.4 *What distinguishes a futures contract from a forward contract?*

(i) CREDIT - in a forward contract the two parties have to trust each other, whereas the collection of margins on a futures contract removes all credit.

(ii) STANDARDIZATION - forward contracts have terms to suit the two parties, whereas futures contracts specify a standard quality, delivery month, location, system of payment, etc.

(iii) PUBLIC PRICES - forward prices are not always known, whereas futures prices are published.

(iv) PURPOSE OF TRADE - most futures contracts are not delivered, but re-sold (or re-purchased) prior to delivery because their purpose is to cover price-changes rather than to obtain the goods.

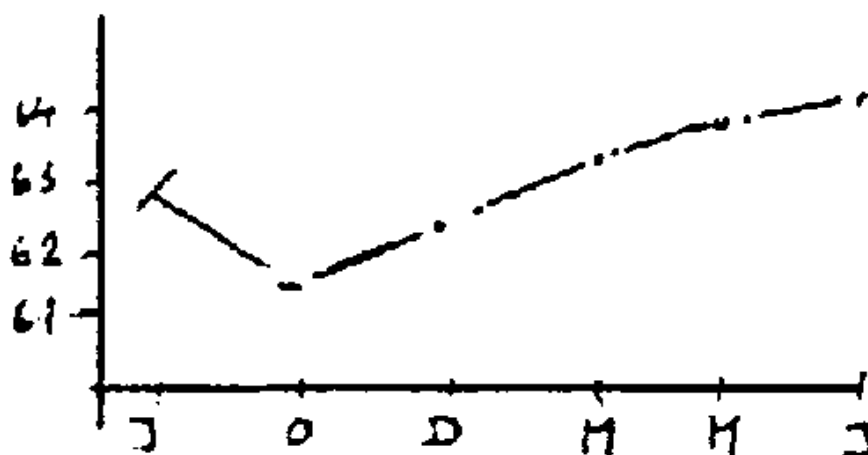
1.5 *Where are the futures markets?*

Chicago - grains, soyabeans, cattle, pigs
New York - sugar, cocoa, coffee, COTTON, oil
London - sugar, cocoa, coffee, oil
Paris
Sydney
Kuala Lumpur
Hong Kong

1.6 What do futures prices "Look Like"?

New York Cotton Exchange, closing prices, 5.6.85
(50,000 lb contract, prices in cents per lb)

July	62.94
Oct	61.55
Dec	62.12
March	63.30
May	63.80
July	64.02



5. Arbitrages

Arbitrages are riskless trades which bring prices to their "correct" levels.

5.1 Time arbitrage

"Cash and carry"

March 20 buy spot cotton at \$0.5990 and sell July futures at \$0.6290

July 31 deliver cotton

gain = \$0.03/lb i.e. 5.00 %, - less storage costs

You would do this if storage costs were less than 5 % over the 4 months.

5.2 Space arbitrage

Not possible in cotton. In other products, buy futures in London, sell futures in New York and hope to make a profit on difference in prices.

The basis

The term "basis" is used to describe the difference between the price of the commodity in the actual market and the price of the futures contract in the same commodity.

$\text{BASIS} = \text{CASH PRICE} - \text{FUTURES PRICE}$.

The basis can be either positive or negative.

The concept of basis strengthening can be summarized as the basis becomes more positive.

The concept of basis weakening can be summarized as the basis becomes more

negative.

The basis is comprised of two components:

- * The time-associated component.
- * The distance-associated component.

The time-associated component of the basis may be described as the costs of carrying the physical commodity for a future date. Costs of carry consist of the costs of storage, insurance, interest, etc.

The distance-associated component of the basis may be described as the costs of transporting the physical commodity to a different location. Transportation costs reflect the fact that the commodity may be produced in a location different from that where it is delivered.

Changing supply and demand factors in different local markets, availability of transportation facilities and unexpected factors such as labour disputes may result in a difference between the cash price and the futures price.

Changes in the cash price and the futures price of a commodity: have a tendency to move in concert with each other.

Fluctuations in the basis tend to be less volatile than fluctuations in cash and futures prices. The basis is generally more predictable than both cash prices and futures prices.

2. Organization of futures markets

1. Trade occurs around "rings" or "pies" and traders shout bids and offers to each other across the middle.
2. The Clearing House is responsible for collecting the initial margin from each buyer and seller and collects/pays out variation margin every day. The Clearing House is also responsible for organizing delivery of the goods and payment.
3. Each member of a market acts as a clearing house to his own customers, calling them for margin as required.

3. Why some commodities have futures and others none

1. Is the cash market large enough?
2. Is the price sufficiently volatile?
3. Are there enough independent buyers and sellers?
4. Can the commodity be standardized?
5. Are existing forward contracts flexible enough anyway?

4. Speculation (trading) with futures

4.1 Simple trade

View - expect July price to fall

March 1 sell 10 lots July at 60.00 cents/lb
 (each lot is 50,000 lb)
 (initial margin = \$ 1.500/lot, so \$ 15,000 total)
 (value of cotton controlled = \$ 30.000 x 10 = \$ 300,000)

March 20 buy 10 lots July at \$ 0.59/lb
 gain = \$ 0.01/lb on 10 lots
 = \$ 0.01 x 10 x 50,000

= \$ 5.000

4.2 Spread between months View - expect October to rise relative to July

March 1 sell 1 lot July at \$ 60.00

buy 1 lot October at \$ 58.40

June 5 buy 1 lot July at \$ 62.94

sell 1 lot October at \$ 61.55

gain = \$ 60.00 - \$ 62.94 + \$ 61.55 - \$ 58.40/lb

= \$ 0.21/lb

4.3 Spreads between commodities

Some traders do "exotic" spreads (which are really just two trades).

e.g. "Yellow Toyota" = sell Japanese yen/buy corn.

The role of the Clearing House

Daily settlement and marking-to-the-market

1. Facilitates the flow and transfer of funds.
2. Acts as a counter party to the futures contract.
3. Assures the financial integrity of the market.
4. Administers daily evaluation and settlement of profits and losses.
5. Provides a mechanism for delivery or cash settlement.

The futures exchange determines the daily settlement price for each contract traded.

The clearing house uses the daily settlement price to credit the accounts of clearing members showing a net gain on their positions as a result of favourable price movements, and debit the accounts of clearing members showing a net loss due to adverse price movements.

The principle of daily cash settlement permits the trader to withdraw any profit resulting from his futures trading on a daily basis.

MARKING TO THE MARKET COTTON (CTN) 50,000 LBS; CENTS PER LB.

	Open	High	Low	Settle	Change
Dec	54.92	55.29	54.65	55.16	+20
Mar 89	55.35	55.80	55.16	55.75	+35
May	55.40	55.95	55.30	55.87	+27
July	55.65	56.10	55.46	55.85	+10
Oct	55.90	55.90	55.60	55.90	+45
Dec	55.80	56.15	56.62	56.07	+52

Est vol 5.000; vol Tues 5,051; open int 35,876, -698.

To understand the functioning of a futures exchange, one must understand two parts of the system:

1. Order flow and matching of trades.
2. Clearing and position keeping.

This is a feature of exchanges on which instruments that cannot be owned or deposited are traded.

The role of the Clearing House

A Clearing House provides 5 essential services:

1. Facilitates the flow and transfer of funds, matching the data of executed buy and sell trades (and updating positions).
2. Upon the execution of an order, acts as the counter party to the futures contract, severing the link between the buyer and seller and permitting a trader to conduct an offsetting transaction without having to locate and obtain the agreement of the original party.
3. Assures the financial integrity of the market by guaranteeing the contract.
4. Provides a system of daily evaluation and settlement of profits and losses.
5. Provides a mechanism for delivery or cash settlement.

Risk and inventory management

You are the manager of a cotton trading company.

You know that in 3 months you will have to sell a large amount of cotton to meet the cash needs of the company.

Thus:

- You have a long position in the cash market.
- Your risk is a decline in the cotton market.
- You can hedge this risk with cotton futures.
- You place a short hedge by selling cotton futures.

As a result of the hedge:

If the cotton market drops, you avoid a loss. If the cotton market rises, you are unable to profit.

The trading process and market participants

Market participants:

- Institutional investors
- Private/public enterprises
- Individual investors

Trading floor participants:

- Floor brokers: Execute orders for non-members as their agent.
- Locals: trade on their own account (provide greater liquidity).

6. Hedging

6.1 Merchant's hedge

	Cash market	Futures market
Mar 1	Merchant agrees to sell cotton to manufacturer for August delivery at \$63.50	Buys N.Y. futures at \$62.00
Mar 10	Buys cotton needed at cif equivalent price of \$64.50 (market has risen)	Sells futures at \$63.00
	loss = \$1.00	gain = \$1.00

The futures contract was used as a temporary substitute for a cash-market purchase by the merchant. It released him from the necessity of a "back-to-back" deal. What he lost on the cash market, he recouped on the futures market.

6.2 Consumer hedge

	Cash market	Futures market
Mar 1	Manufacturer has an order for July which requires cotton to be bought in May. Expected price is \$ 63.00	Buy N.Y. futures at \$ 62.00
May 1	Buy cotton at \$61.50	Sell futures at \$ 60.50
	gain = \$ 1.50	loss = \$ 1.50

The manufacturer was worried that prices might rise, whereas they actually fell. Nevertheless, by using the futures market he was able to lock-in the price of \$ 63.00 on 1 March (== \$ 61.50 paid in May plus loss o \$ 1.50 on futures).

7. Forecasting the futures price

7.1 Fundamental analysis

Fundamental analysts make medium- to long-term forecasts of prices, based upon the "fundamentals" of supply and demand. They concentrate on forecasting CLOSING STOCKS from SUPPLY, DEMAND and OPENING STOCKS. PRICE is then forecast as a function of:

CLOSING STOCKS/CONSUMPTION

7.2 Technical analysis

Technical analysts make short-term (one hour to two weeks) forecasts based only upon the recent movement of the price. Their decisions are based upon rules such as:

5-day versus 3-day moving averages of prices

trend lines - "if price rises 5 % buy and follow trend"

support and resistance - prices (they claim) tend to remain in narrow bands, such as \$ 0.62- \$ 0.63 per lb, but once they "break-out" then buy/sell, because the price will go further.

8. Do futures markets matter?

8.1 They help to determine the "correct" price for a commodity. Even if you do not use futures, you should watch futures prices as an indicator of supply/demand balance.

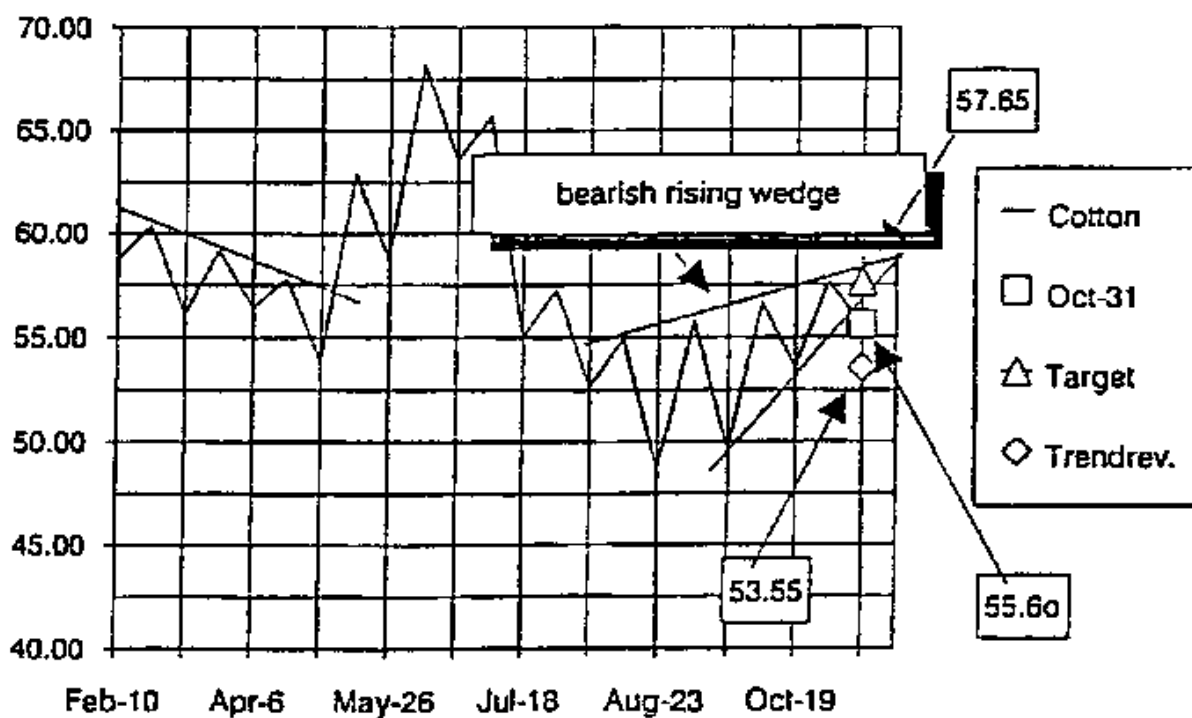
8.2 They allow hedging to occur (insurance).

*Technical analysis per closing Oct 31, 1988 **

* This material is for your private information, and we are not soliciting any action based on it. Opinions expressed are our present opinions only. The material is based upon information which we consider reliable but we do not represent (hat it is accurate or complete, and it should not be relied upon as such. We may have positions, or not, buy and sell, in these or other cash-, futures- and options-markets.

N.Y. Cotton (December 88)

Main-trend: (20-30 weeks)	Bearish, with a target of \$ 45.00.	
Short-term trend: (20-30 days)	Sideways, with a target of \$ 57.65, however, the 9-week consolidation-pattern is bearish (rising wedge):	
		- Closing below \$ 53.55 reconfirms the long-term target of \$ 45.00.
		- Closing above \$ 57.65 activates a \$ 59.50- \$ 60.75 target range.
Technical indicators:	are starting to display bearish divergences as compared to the most recent price-action. (Failure to confirm the rally highs.)	
Trading-strategy:	Work from the short side (top-picking) along the major bearish trend, with a protective stop above \$ 57.65 (basis close). If stopped out, go short again in the \$ 59.50- \$ 60.75 range.	
	\$ 60.75	2nd resistance
	\$ 37.6S	1st resistance
	\$ 56.60	Minor resistance
	\$ 55.60	NY close Oct 31
	\$ 54.75	1st support
	\$ 53.55	2nd support
	\$ 52.00	3rd support



[FUTURES INDUSTRY ASSOCIATION - INC. 1825 Eye Street N.W. - Suite 1040 - Washington, D.C. 20006 - \(202\) 466-5460](#)

New York Cotton Exchange

New York Cotton Exchange
Four World Trade Center
New York, NY 10048

Tel: (212) 958-2650
Tlx: 961312
Fax: (212) 839-8061

FUTURES	size	tick size	months	hours	delivery
US Dollar Index	\$500 * index	\$5.00	Mar Jun Sep Dec	8.20-14.40	c
Ecu	Ecu 100.000	\$10.00	Mar Jun Sep Dec	8.20-14.40	p
Five Year US Treasury notes	\$100,000	\$15.625	Mar Jun Sep Dec	8.20-15.00	p
Cocoa	50,000 lbs	\$5.00	Mar May Jul Oct Dec	10.30-15.00	p
Orange juice	15,000 lbs	\$7.50	Jan Mar May Jul Sep Nov	10.15-14.45	p
OPTIONS					
Cocoa	50.000 lbs	\$5.00	Mar May Jul Oct Dec	10.30-15.00	f
Orange juice	15,000 lbs	\$7.50	Jan Mar May Jul Sep Nov	10.45-14.45	f
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All NYCE's financial contracts are traded on Finex, the exchange's financial instruments subsidiary.

COTTON CASH PRICE UNITED STATE

Average Spot Cotton Prices,² C.I.F. Northern Europe In Cents Per Pound (Equivalent U.S. c/Lb.)

Crop Year (Aug.-July)	M1"		SM 1 ¹ / ₁₀ - ³ / ₃₂								Ta M
	U S. Orleans Texas	Pakistan N.T. Sind	Guatemala SM	U.S. Memphis Terr. SM	Greece SM	Egypt Giza 1 ¹ / ₁₀ FG	Mexico SM	Nicaragua SM	Syria SM	USSR Pervyi. 3 ¹ / ₃₂ MM	
1978-79	63.23		75.23	72.52	83.09		72.94	70.21	72.08	72.55	
1979-80	75.36	75.41	83.63	87.49	84.00	136.37	85.86	86.33	83.50	85.89	9
1980-81	89.14	84.94	93.47	101.23	83.80	137.66	94.91	92.46	101.00	92.80	1
1981-82	66.76	65.65	72.87	76.30	81.00	115.73	75.28	72.17	79.82	73.02	8
1982-83	68.11	65.59	76.14	77.94	85.74	110.07	76.39	75.70	81.10	71.00	8
1983-84	78.41	75.20	86.81	87.09	94.37	134.07	87.42	86.02	90.00	91.15	9
1984-85	65.92	55.96	66.96	73.47	74.32	136.06	70.00	N.A.	75.15	-	7
1985-86 ¹	52.55	37.44	51.38	58.50	50.98	111.27	53.02	N.A.	47.00	48.09	9
July '85	29.70	28.30		38.05	37.10	111.75	43.80			36.15	4
Aug. '86	29.44	27.94		37.75	36.80	111.75	43.06			36.44	4
Sept. '86	34.54	33.25		44.69	46.00	111.75	46.00			43.63	9
Oct. '65	43.55	40.20		52.35	53.85	111.75	54.75			53.20	9

¹ Preliminary.

² Generally prompt shipment. *Source: International Cotton Advisory Commerce*

Cotton "2" NYCE

United States Government Crop Forecasts and Actual Cotton Crops

Year	Forecast of Production (1.000 Bales of 480 Lbs. ¹)					Actual Crop	Forecasts of Yields (In Lbs. Per Harv. Acre					Actual Yield
	Aug 1	Sept. 1	Oct. 1	Nov. 1	Dec. 1		Aug. 1	Sept 1	Oct 1	NOV. 1	Dec. 1	
1976	10,734	10,375	10,251	9,891	10,264	10,581	466	451	445	435	451	463
1977	13,535	13,302	13,317	13,832	14,496	14,389	506	495	500	503	523	520
1978	11,820	11,155	10,873	10,981	10,841	10,856	462	425	429	418	421	420
1979	13,710	14,245	14,356	14,544	14,527	14,629	497	525	5238	535	534	547
1980	12,812	11,689	11,589	11,224	11,125	11,122	461	421	419	408	411	404
1981	14,789	15,507	15,476	15,560	15,733	15,646	515	540	540	543	546	543
1982	11,143	11,029	11,365	11,947	12,102	11,953	563	569	587	605	613	590
1983	7,810	7,776	7,550	7,497	7,725	7,771	503	501	487	504	506	508
1984	12,569	13,276	13,272	13,271	13,292	12,982	583	615	620	613	610	600
1985	13,780	13,655	13,638	13,875	13,310	13,432	638	632	633	644	644	630
1985	10,676	10,506	10,006	9,875	9,792		573	565	539	546	539	

¹ Net Weight bales. Sourer: *Crop Reporting Board, U.S.D.A.*

High, Low & Closing Prices of May Cotton Futures at New York In Cents per Pound

Year of Delivery		Year Prior of Delivery										Delivery Year				
		Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	M
1980	High	67.90	65.70	66.40	68.25	67.00	70.00	69.00	68.90	73.00	76.40	86.00	90.42	90.70	87.40	84
	Low	66.00	64.10	63.00	63.90	64.55	65.90	66.25	66.40	68.20	70.62	73.97	60.70	77.52	79.50	60
	Close	65.65	65.45	64.15	65.60	66.05	69.20	67.70	68.22	71.77	75.95	65.37	86.77	65.12	81.99	83
1981	High	80.60	77.60	78.42	75.00	85.70	94.50	96.67	93.50	93.12	97.67	96.50	93.70	89.80	89.20	85
	Low	74.50	74.30	74.92	72.60	75.50	81.65	87.00	83.20	86.70	88.40	83.35	86.00	84.75	83.75	80
	Close	77.00	75.05	75.00	74.60	84.80	93.92	90.40	90.20	92.08	95.60	90.90	90.14	86.12	64.00	80
1982	High	84.90	85.35	83.66	82.50	81.27	79.40	73.60	71.90	70.45	67.40	67.95	67.65	66.75	68.95	68
	Low	82.75	83.20	81.80	78.70	79.10	71.45	68.55	68.30	64.40	63.11	65.55	64.65	64.01	65.40	67
	Close	84.20	83.36	82.90	79.00	79.30	69.15	69.15	69.45	65.29	65.70	67.62	64.94	65.92	68.30	68
1983	High	74.65	76.75	76.50	77.50	77.50	74.90	72.15	69.25	68.15	68.90	68.40	71.25	76.42	75.30	71
	Low	73.50	74.20	73.74	69.45	74.50	69.50	66.75	65.80	65.81	66.20	66.35	66.26	70.30	70.25	69
	Close	74.53	76.40	73.30	76.60	74.66	69.90	67.25	67.42	66.62	67.41	67.33	71.20	75.32	71.08	71
1984	High	74.60	75.50	80.00	83.40	82.70	63.80	83.40	82.15	63.60	82.05	78.25	78.79	81.85	82.54	84
	Low	70.60	73.25	73.20	79.25	78.20	80.30	78.15	78.70	80.31	78.35	74.75	74.05	77.70	77.90	81
	Close	73.80	73.80	80.00	80.00	81.00	82.80	79.30	81.65	80.98	78.42	77.13	78.09	81.74	82.39	82
1985	High	81.85	78.00	79.25	79.15	75.25	71.80	69.00	72.05	71.30	67.66	68.20	66.85	68.25	70.45	68
	Low	77.70	75.80	77.45	75.00	69.60	63.74	67.60	67.36	66.45	66.20	65.70	63.28	63.26	64.75	66
	Close	81.74	78.00	78.60	75.00	69.75	69.15	63.00	69.85	66.95	66.95	65.76	64.18	67.60	66.40	66
1986	High	67.55	67.88	66.65	64.25	62.90	61.10	60.90	62.39	63.45	62.10	63.60	64.48	65.55	67.25	68
	Low	66.35	66.53	61.66	63.00	59.95	59.30	59.25	60.45	60.50	59.60	58.80	59.50	61.90	60.70	66
	Close	67.55	66.52	63.13	63.00	60.25	60.05	60.48	67.34	60.75	62.06	60.32	63.45	65.69	66.80	67
1987	High	46.70	41.55	40.55	37.30	35.25	38.40	48.90	50.90	52.96	59.50					
	Low	40.50	38.30	36.70	33.60	31.56	32.40	35.44	45.51	46.35	52.60					
	Close	41.00	40.70	36.73	33.93	34.40	38.40	47.50	47.00	52.96	59.25					

Source: *N.Y. Cotton Exchange*

Month-End Open Interest of Cotton Futures at New York In Contracts

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1980	54,046	57,691	44,363	38,596	31,753	27,276	39,711	46,814	49,370	45,433	40,208	35,022
1981	32,078	34,782	23,652	24,108	26,793	27,286	26,009	30,014	32,121	31,671	29,137	26,584
1982	30,286	31,740	30,230	31,422	27,665	24,675	24,978	23,052	27,047	26,070	26,949	26,581
1983	29,544	34,165	36,109	33,990	35,026	33,651	31,402	33,961	31,531	29,272	30,568	30,758
1984	32,246	28,060	34,212	29,596	30,569	22,239	21,734	21,576	20,419	22,547	19,211	16,614
1985	19,790	17,660	18,678	14,101	16,461	15,381	19,386	20,861	21,011	22,859	23,196	21,748
1986	23,326	20,624	20,112	20,121	23,702	22,505	25,321	27,642	23,406	24,432	20,534	23,035

Source: N.Y. Cotton Exchange

Volume of Trading of Cotton Futures at New York In Contracts

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1980	286,058	278,901	290,133	206,682	191,067	128,393	175,619	188,542	224,323	186,615	173,061	173,111
1981	156,303	166,292	150,297	117,653	90,157	117,249	99,175	95,312	96,956	120,301	115,833	89,981
1982	100,242	104,444	103,697	106,692	95,597	151,068	116,211	99,674	101,119	94,265	98,597	63,981
1983	97,947	123,620	139,032	132,447	139,953	153,932	143,116	156,650	121,972	113,759	137,472	90,111
1984	124,735	133,891	127,448	126,780	139,988	111,050	71,522	51,941	39,519	63,631	66,729	39,981
1985	61,560	57,034	61,931	65,709	47,606	47,604	41,069	40,524	42,747	55,046	63,829	51,561
1986	73,576	77,152	57,433	74,520	54,479	64,742	75,545	94,025	130,989	111,356	113,812	54,611

Source: N.Y. Cotton Exchange

This is the third of four texts on marketing and agribusiness prepared by an FAO project for use in universities and colleges, in specialist courses for students or in short courses given to industry staff. This text, *Global agricultural marketing management*, introduces the concepts associated with global marketing, highlighting the importance of understanding the economic, cultural, legal and political environment in planning and undertaking global marketing. Techniques for carrying out global marketing research and defining competition and market entry strategies are presented. Product pricing, promotion and distribution issues are reviewed, and logistics and control aspects of global marketing are presented. This text should be of use to all involved in planning or undertaking global marketing in the corporate sector as well as to educational and training institutions preparing people to engage in export marketing.

